Crelan Group Risk Disclosure Report 2021

Crelan

Table of contents

Glossary

AB	AXA Belgium
ABB	AXA Bank Belgium
ABE SCF	AXA Bank Europe Société de Credits Fonciers
ALM	Asset & Liability Management
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BoD	Board of Directors
BSRC	Balance Sheet Risk Committee
CDS	Credit Default Swap
CET1	Common Equity Tier 1
CFC	Capital and Funding Committee
COREP	Common Reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA / DVA	Credit Valuation Adjustment / Debit Valuation Adjustment
EBA	European Banking Authority
ECAP	Economic Capital
ECB	European Central Bank
EL	Expected Loss
EMTN	European Medium-Term Notes
ESG	Environment, Social and Governance
EU	European Union
ExCo	Executive Committee
FRAS	Functional Risk Appetite Statement
FSMA	Financial Securities and Markets Authority
FX	Foreign Exchange
GDP	Gross Domestic Product
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Internal Liquidity Stress
IMO	Integration and Migration Office
IRB	Internal Rating Based Approach
IRRBB	Interest Rate Risk in the Banking Book
IRS	Interest Rate Swap
LoD	Line of Defence
LRC	Lending Risk Committee
NBB	National Bank of Belgium
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OLO	Obligation Lineaire / Lineaire Obligatie, Belgian government bond
PAP	Product Approval Process

PARP	Product Approval and Review Process
PD	Probability of Default
P&L	Profit and Loss
RAF	Risk Appetite Framework
(Reverse) Repo	(Reverse) Repurchase Agreement
RMBS	Residential Mortgage-Backed Securities
RoA	Return on Assets
RWA	Risk-Weighted Assets
SFT	Securities Financing Transaction
SME	Small and medium-sized enterprise
SPV	Special Purpose Vehicle
SRAS	Strategic Risk Appetite Statement
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
STIC	Short Term Incentive Compensation
T1	Tier 1 Capital
T2	Tier 2 Capital
TLTRO	Targeted Longer-Term Refinancing Operation
UTP	Unlikely To Pay
VaR	Value at Risk

Tables and figures

1. Introduction

The purpose of this Risk Disclosure report is to provide transparency on the risk profile of Crelan Group as required by the global regulatory framework established by the BCBS, also known as Basel III. On European level these are implemented in the disclosure requirements as laid down in Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR") and with the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive 4, or "CRD4").

This report contains information on all subjects included in the directives, insofar as they apply to Crelan Group:

- EBA Guidelines for Pillar 3 Disclosures (EBA/GL/2017/11)
- Disclosure of Own funds (EU No 1423/2013)
- Disclosure of Countercyclical buffer (EU No 2015/1555)
- Disclosure of Leverage ratio (EU No 2017/200)
- Disclosure of Encumbered assets (EBA/DR/2018/2295)
- Disclosure of Remuneration (2013/36/EU Art. 74(3) and 75(2)
- Disclosure on Liquidity (EBA/GL/2018/01)
- Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10)
- Part Eight of the CRR

In addition, Crelan Group is closely monitoring future disclosure requirements and will apply these requirements when they become applicable.

This 2021 risk report covers the situation of Crelan Group on 31 December 2021. As Crelan Group acquired ABB at the end of 2021, only end of year figures will be covered in this report. Information is disclosed on a consolidated level. All amounts in the templates are expressed in euro. Only relevant tables and templates are shown in this report and its annexes.

For sake of clarity, the following terminology will be used in the rest of this document: the denomination Crelan Group will be used to refer to the combination of CrelanCo CVBA, Crelan SA, ABB SA[1] and EuropaBank NV. ABB will be used to refer to ABB SA, Europabank will be used to refer to Europabank NV, while the term Crelan encompasses CrelanCo CVBA and Crelan SA (i.e. the Crelan Federation).

1 ABB SA includes AXA Belgium Finance, Royal Street and ABE SCF.

1.1. Crelan Group

The business model of Crelan Group is structured around one core business line: Belgian retail activity. Crelan Group is primarily a retail bank, focussing on retail funding and lending, i.e. servicing clients in their financing needs and facilitating savings and invest possibilities. In addition to the retail business, the financing of SMEs and the agricultural sector is a second important activity.

These business lines are supported by:

- ALM;
- Treasury;
- Funding via RMBS, EMTNs and covered bonds.

The tables below give an overview of the structure of Crelan Group's balance sheet:

Table 1 - Consolidated Assets of Crelan Group

Assets (in Million EUR)	31/12/2021
Cash balances	4,995
Financial assets	47,218
Held for trading	53
At fair value through OCI	418
At amortized cost	46,748
Investments in subsidiaries, joint ventures and associates	13
Derivatives - Hedge accounting	17
Fair value changes	431
Other assets	337
Total Assets	53,012

Table 2 - Consolidated Liabilities of Crelan Group

Liabilities (in Million EUR)	31/12/2021
Financial Liabilities	50,324
Held for trading	44
At fair value through P&L	743
At amortized cost	49,537
Derivatives - Hedge accounting	54
Provisions	182
Other liabilities	258
Equity	2,194
Total Liabilities	53,012

On the asset side, mortgages, SME and agricultural financing, and other lending (mostly other retail loans) take up the majority of the balance sheet and a conservative bonds portfolio (mostly government and supra-nationals) is held in order to guarantee a minimum level of unencumbered liquid assets. On the liability side, funding is mainly provided by retail deposits. In addition to the pool of retail deposits, the covered bonds issued by SCF and the EMTNs issued by AB Finance provide structural long-term funding.

On both sides, the balance sheet contains the fair value of derivatives (in treasury assets and liabilities, netted partly by the value of collateral). The derivatives portfolio is therefore used for hedging purposes in ALM, Treasury and the investment portfolio.

1.1.1. Belgian retail activity

In Belgium, Crelan Group offers an extensive range of financial products to retail clients, self-employed professionals, and small companies. Therefore, it relies on a network of exclusive, independent bank agencies (except for Europabank) and independent credit brokers. The bank agents typically also have an independent insurance brokerage activity. To support these activities Crelan has commercial agreements with the following companies:

- AXA Belgium Insurance;
- Allianz;
- AXA investment;
- Amundi;
- Econopolis.

The product range is easy to understand and covers all elementary banking needs. The core products are current accounts and related savings accounts, term deposits, mortgage loans, consumer and professional loans, and investment funds.

Crelan Group's balance sheet exists to a large extent out of mortgage loans (+/- 67%) and client deposits (+/- 81%), a significant part of Crelan Group's revenue is derived from net interest income. In order to increase revenue diversification, Crelan Group is increasing its effort and focus in developing sources of fee income through investment products, as well as credit production in professional loans.

1.1.2. Crelan Group credit portfolio

Crelan Group's credit portfolio mainly consists of Belgian mortgages, consumer loans, agricultural loans and professional loans, with mortgage loans representing the most important share at 79% of the total portfolio, in terms of exposure.

Table 3 - Retail loans Crelan Group

Exposure (in Million EUR)	31/12/2021
Mortgage Loans	35,769
Consumer Loans	1,576
Agricultural Loans	2,070
Professional Loans	4,454
Other Loans	1,403
Total Exposure	45,273

Table 3 excludes interbank loans, cash collateral and impairments. The retail credit portfolio is an important source of potential loss in the event of stress. Therefore, the assessment of quality of this portfolio and the careful monitoring of the quality of new production are crucial in order to be able to trust the adequacy of the internal capital.

1.1.3. Concentration risk on Belgian mortgages

Despite the good performance of Belgian mortgage loans in terms of default rates, different instances have expressed their concerns on the Belgian mortgage lending market. The cause for this is the growing debt ratio, lower margins on mortgage loans and the increasing house prices. Crelan Group is aware of the concentration of Belgian mortgage loans on its balance sheet and in its income model. Therefore, the bank is attentive for the concerns raised on the Belgian real estate market and the vulnerable segments in the mortgage portfolio.

The acquisition of ABB by Crelan Group results in a market share for Belgian mortgage lending of approximately 13.5%. The quality of the mortgage portfolio and production is a constant focus at Crelan Group. In recent years observed default rates were showing a decreasing trend. The latter can be attributed to three important causes, being:

- The controlled and monitored risk intake policy of Crelan Group;
- The supporting measures taken by the Belgian Governments;
- The positive effect on repayment capacities due to low interest rates and refinancing at these lower rates.

Crelan Group strongly oversees the repayment capacity of its clients and several early warning indicators. The actionability and monitoring of these early warning indicators are further strengthened by the additional risk management tools that were developed for IFRS 9 purposes. The credit policies of both Crelan and ABB furthermore define general rules on among others repayment capacities and collateral values. A correction on the Belgian real estate market will only have a limited impact in the absence of a default event, which is why loans with an LTV above 80% are in general only granted to clients with a good risk profile. Additionally, when comparing collateral values, collateral instruments and debt-to-income ratios, it is observed that Crelan Group is in line with its peers in the Belgian market.

On top of the monitored risk intake policy and a high-quality mortgage portfolio, Crelan Group is well-capitalized for withstanding negative shocks in the macro-economic environment. Recent years have resulted in more than a doubling of risk-weights for mortgage loans as a result of the introduction of macroprudential add-ons. The assessment of the constituents of the bank's mortgage portfolio and the strong risk profile strengthens the confidence of this statement.

In addition to Crelan Group's strong capitalization, controlled risk intake and qualitative loan portfolio, the Belgian regulatory and social framework provides additional stabilizing factors in case of macro-economic downturns such as social security, unemployment schemes and the automatic indexation of income.

Crelan Group is however aware of the constant effort that is required for managing and controlling the risk intake. The bank furthermore follows the Belgian property market closely via reports of the supervisor, other external sources and own analysis of recovery data, and leverages on the herein provided insights.

1.1.4. Crelan Group's retail deposits

The largest portion of Crelan Group's retail customers are private individuals while a small part of the total deposits is from self-employed and SME's. While interest rate risk linked to retail deposits is mainly a liquidity risk (which is covered in the ILAAP), there is also a risk from a capital perspective. The Belgian Royal Decree to implement the income tax code (KB/WIB 92) states that a compensation for saving accounts has to be paid. This compensation should be non-negative for the base rate and a fidelity premium should be the maximum of 10 bps or 25% of the base rate. This translates to the legal floor of 11 bps applicable to the client rate of all Belgian regulated saving accounts, which results in a floored cost of retail funding. This fact combined with the current and persistent negative rate environment drives the net interest margin of retail banks to diminish over time. Interest income from the asset side diminishes due to maturities and new production at lower rates (compared to the historical stock), while interest expense is constant due to the legal floor.

1.2. Significant events in 2021

For Crelan Group there were 2 events that had a significant effect on the Group. Firstly, the closing with ABB on 31/12/2021 as discussed in section 1.2.1. Secondly, the continuing COVID-19 pandemic as explained in section 1.2.2.

1.2.1. Acquisition of AXA Bank Belgium

On the 24th of October 2019 AXA Group and Crelan Group reached an agreement regarding the acquisition of ABB by Crelan Group and the sale of Crelan Insurance SA to AXA Group as part of a strategic long-term partnership. On the 31st of December 2021, the closing (= effective implementation of the agreement with AXA Group) was completed after receiving the green light from the regulators. After the closing, Crelan Group will implement its IT integration and migration plan, with an expected duration of 27 months (as discussed in section 1.2.1.2).

With the acquisition of ABB, Crelan Group doubles its size and becomes the fifth largest bank in Belgium. Due to the continuous low interest rates, the interest margin of the banks has been under pressure for some time. In addition, digitalization and increased regulation and capital requirements require additional investments from the banks. The acquisition will enable the bank to create economies of scale by making these necessary investments for twice as many customers in the future and thus to make the bank more profitable. A timeline of the integration is shown below:

Figure 1 - Integration timeline

In the following section the new structure of Crelan Group after the closing is discussed.

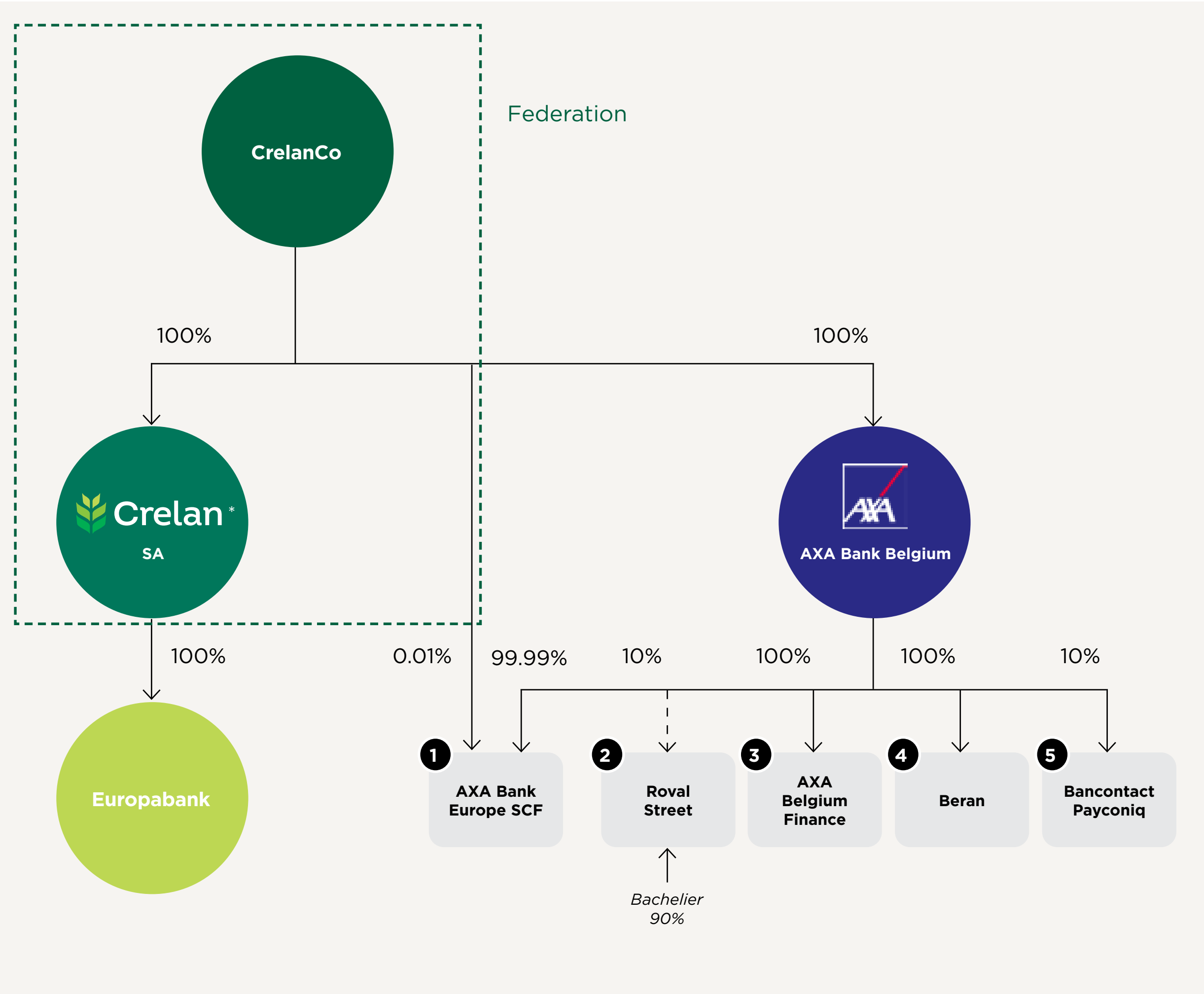
1.2.1.1. New Structure of Crelan Group

As of the closing date of the takeover of ABB by Crelan, Crelan Group consists of 4 legal entities:

- CrelanCo CVBA;
- Crelan SA;
- Europabank NV;
- AXA Bank Belgium SA (and its subsidiaries).

Crelan Group belongs to more than 275,000 cooperative shareholders. Through the cooperative company CrelanCo, they own Crelan, Europabank and ABB. CrelanCo and Crelan SA constitute a federation of credit institutions under Belgian Law. Because of this all liabilities of both entities are joint and several. Both legal entities conduct banking activities and have products on their balance sheet. Crelan SA acts as the central institution and central bank of the federation. The federation in its turn owns Europabank NV and AXA Bank Belgium SA (and its subsidiaries). More information about the subsidiaries and participations of Crelan Group are shown in the figure below:

Figure 2 - Simplified legal Group structure (after the transaction)



Crelan – CrelanCo CVBA: in accordance with Article 239-241 of the Law on the Statute of and Supervision of Credit Institutions of April 25, 2014 (the 'Belgian Banking Law'), Crelan SA forms with the recognized cooperative company CrelanCo, a federation of credit institutions of which Crelan SA is the central institution. These articles reflect the confirmation by the European CRR/CRD IV package of the existence of Federations of credit institutions (see Articles 21 and 108(1), second subparagraph of CRD IV - DIRECTIVE 2013/36/EU) and Article 10 of CRR (Regulation 575/2013). Today Crelan SA and CrelanCo together form the only Federation of Credit Institutions that exists in Belgium.

The Belgian Banking Law foresees that a Federation consists of a central institution (Crelan SA) and affiliated institutions (in the underlying case only one – CrelanCo). It is also important to note that the Federation of Crelan only applies to Crelan SA and CrelanCo. Europabank and ABB (and its subsidiaries) are part of Crelan Group, but they are not part of the Federation (the activity of ABB could potentially become part of the Federation if it merges with Crelan SA).

The Belgian Banking Law foresees clear rules on the governance of a Federation of credit institutions:

- The governance of the Federation is stipulated in a uniform internal regulation that is created by the central institution (Crelan SA). This internal regulation must be approved by the supervisor (ECB) and all federation members are obliged to follow this internal regulation. The internal regulation of the Federation Crelan is contained in the so-called 'affiliation rules'.
- Affiliated institutions are themselves credit institutions given their formal affiliation to the central institution, however the necessary license is granted by the supervisor only after an opinion from the central institution stating that the affiliated institution complies with all the provisions of the internal regulation.
- The obligations of the affiliated institutions and of the central institution are joint and several liabilities.
- The central institution directly supervises the affiliated institutions and is authorized to issue instructions regarding their policies, operations and organization.
- The central institution is responsible for the policies, administrative and accounting organization and internal control of the affiliated institutions.
- All obligations imposed within the framework of European banking supervision apply to the scope of the Federation as a whole and not to individual members or the central institution. In order to do so all regulatory reporting is performed in a consolidated manner for the central institution and the affiliated institutions together.
- As its name indicates, the central institution is responsible for the supervision of the Federation. The Executive Committee that has been installed at the level of Crelan SA (central institution) is the same as the one installed at the level of CrelanCo and has full responsibility for the entire Federation.

It is clear that the concept of a federation of credit institutions is comprehensively provided for in the Belgian Banking legislation and the European CRD regulation. The legislator wants to ensure that all members of the Federation comply with the rules of banking supervision and this has to be supervised at all times by the central institution.

ABB and its subsidiaries ABE SCF, AXA Bank Belgium Finance and Royal Street are together with Europabank NV fully consolidated in the IFRS consolidated financial statements of Crelan Group as explained in section 1.8.2.

In addition to these entities, there are a number of other entities with a specific purpose:

- CASPR S.à.r.l, a Luxemburg law governed Special Purpose Vehicle (SPV) is a SPV created to securitise a part of ABB's residential mortgage portfolio.
- Beran is a company holding the land property rights on which Crelan/ABB premises in Antwerp are built.
- Bancontact Payconiq Company is the Belgian market leader in financial services and controlled by five banks: Belfius, BNP Paribas Fortis, ING, KBC and ABB. ABB owns 10% of Bancontact Payconiq Company.

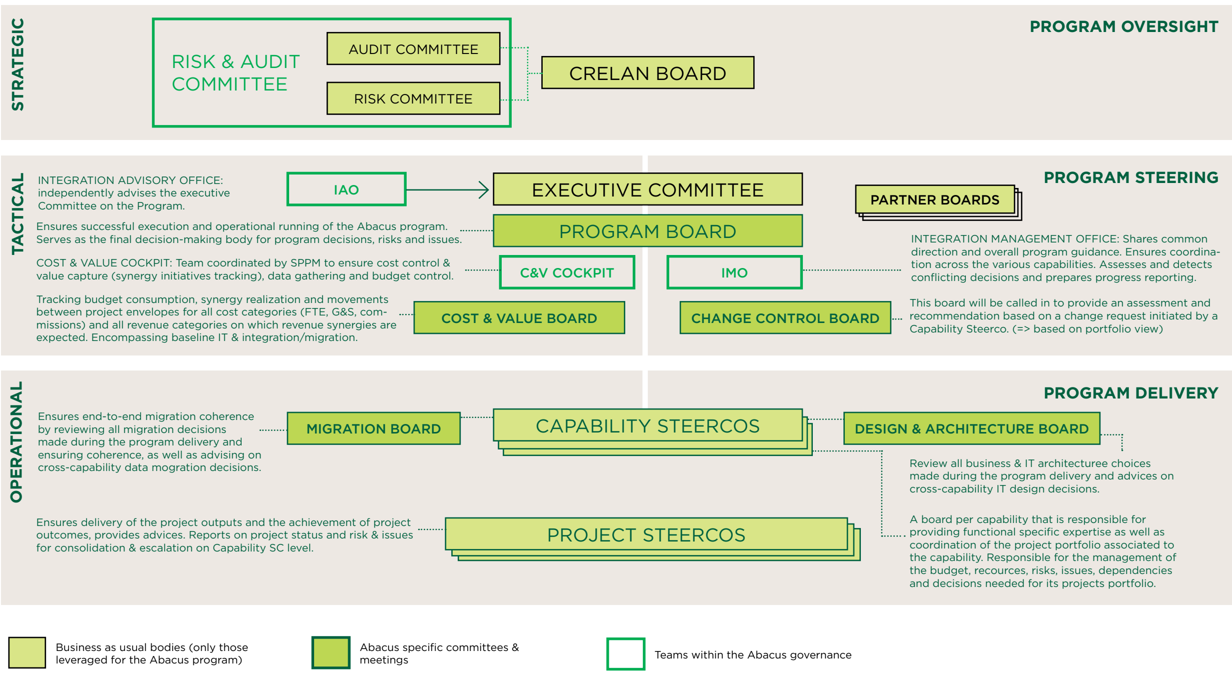
1.2.1.2. Integration process of ABB in Crelan Group

The integration process of ABB into Crelan Group is monitored internally by the IMO. In following sections, the governance, operational domains and execution projects and execution timings of the integration process are described.

1.2.1.2.1. Governance

A Program Delivery Governance has been set up in order to prepare, organize and manage the Integration and Migration of ABB activities, systems and data towards the target organization and IT landscape as well as to monitor and mitigate risks related to this integration. This governance is composed of organs (see charter underneath) covering responsibilities from the operational follow-up of the project to the reporting to Risk and Audit Committee of the Board of Directors.

Figure 3 - organs with the different responsibilities



The role of this governance is to ensure the on-time delivery of each Execution Project (cfr. Next paragraph “Operational Domains & Execution Projects”), while strictly monitoring their budget consumption. Another goal of the governance is to smooth and coordinate the communication between all stakeholders in centralizing exchanges in a formalized and Standardised framework.

1.2.1.2.2. Operational domains and execution projects

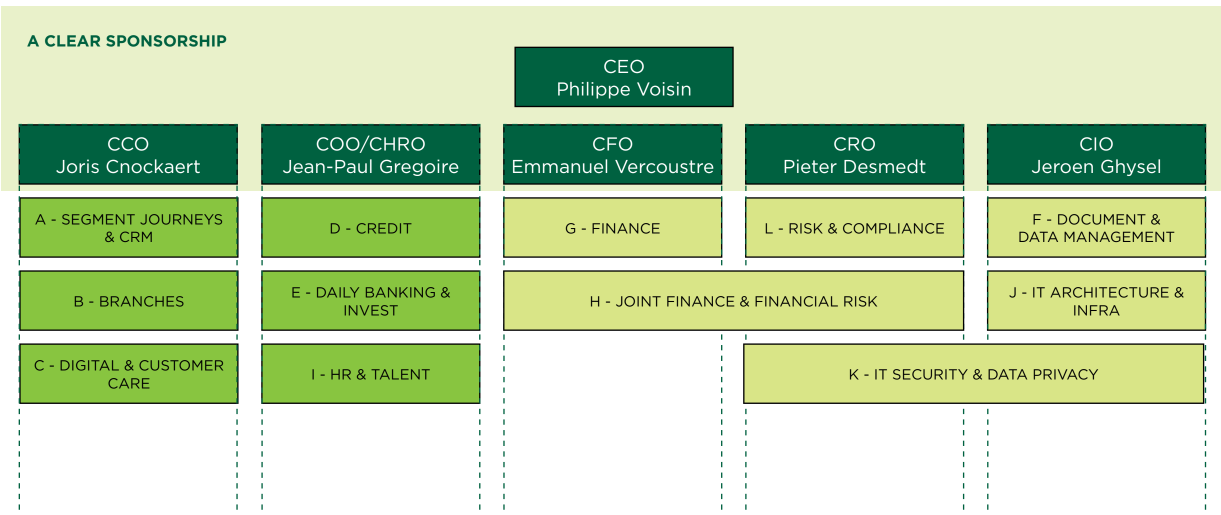
Integration activities have been allocated by operational domains called capabilities. These capabilities are the following and are sponsored by at least one member of the Executive Committee as shown in figure 4.

These Capabilities encompass 112 Execution Projects. Execution Projects are the activities that have been identified to integrate ABB’s activities and that must take place during the 27 months after the closing of the transaction (the 31st of December 2021). To do so, a budget of €131 million including contingencies has been validated and allocated for the whole program. Within the following Execution Projects, policy coordination is also included:

- Segment Journeys and CRM:
  - Design and implement target retail & business journeys, product offerings and pricing (Daily banking, invest, credit).
- Branches and Customer Care Centre:
  - Implement ABB commissioning system next to Crelan commissioning system;
  - Pricing & Scoring;
  - Harmonize agents’ mandates.
- HR and Talent:
  - Harmonize status, reward, and benefits policies.
- Security:
  - Improve overall security maturity index (ISO 27K maturity) to a level above 3;
  - Integration of the DPO offices and related processes.
  - Risk and Compliance:
  - Implement risk appetite framework;
  - Construction of target landscape IRB models;
  - Prepare and deliver redaction of ICAAP-ILAAP-Recovery.

Next to the projects followed-up by IMO, an important part of the integration process is ensuring that all current existing policies of Crelan and ABB become one overarching policy valid for Crelan Group. The Credit Acceptance Policy and Diversity Policy integration are not included in one of the Execution Projects. Credit Acceptance Policy is explained in section 5.3.2, Diversity Policy in part 1.4.

Figure 4 - Capabilities



1.2.1.2.3. Execution timing

The 27 months for the Integration and Migration period have been determined based on Transaction Service Agreements that have been established between Crelan Group and AXA Group to rule services that both companies will still provide to each other during the integration of activities and systems. As explained earlier, the Program Delivery Governance has as responsibilities to ensure the integration of all activities within this timeframe and to mitigate delay risk related to the execution of belonging projects.

Risk related to failing to execute all projects during this period can be nuanced by the possibility for Crelan Group to extend the period covered by the Transaction Service Agreements against the payment of a fee plus a percentage penalty.

Upon the successful completion of the integration and migration project, ABB and Crelan will turn into 1 bank. It is only at that specific point in time that the ABB brand name will disappear.

1.2.2. COVID-19

In 2020, the COVID-19 pandemic severely affected macro-economic conditions and caused significant turmoil in financial markets. During 2021, the COVID-19 crisis continued to unfold. Restrictions that were put in place by the government at the end of 2020 continued in the beginning of 2021. In the course of 2021, the vaccination program started which made less stringent COVID-19 measures imposed by the Belgian government possible. This resulted in a rebound of the economy as from the second quarter of 2021. With the set of support measures installed in 2020 by the Belgian government that continued in 2021 see section 1.2.2.2, credit losses caused by the pandemic for banks were limited.

1.2.2.1. Internal governance

As the COVID-19 pandemic continued in 2021, it was incorporated in the business as usual of both Crelan (including Europabank) and ABB during 2021. The specific risks linked to COVID-19 were monthly monitored via the Credit Risk Committee of Crelan in 2021. The impact on ABB was followed-up in the Risk Committee via the existing COVID-19 dashboard, which was installed at the beginning of the crisis in 2020. This Risk Committee met 7 times in 2021, of which 2 times on an ad-hoc basis.

For Both Crelan (including Europabank) and ABB the situation evolved in a positive way in 2021 and after the termination of the governmental measures no negative evolutions were seen on the credit portfolios. On the contrary, for both banks different risk parameters of the credit portfolios evolved generally in a positive way during 2021. At Crelan (including Europabank), specific files that were negatively impacted by this crisis are individually followed-up. At ABB, a default recognition exercise was performed in 2020 and 2021 on the riskiest loans of the moratorium, i.e. on the clients requesting an extension of their current payments deferrals. This exercise increased the stock of Stage 3 loans at the end of 2020, as well as punctually in 2021. After the end of their payment deferrals, individual analyses were performed to assess the credit worthiness of the clients, based a.o. on payment behaviours. Clients resuming their normal payments without encountering difficulties for several consecutive months were not considered anymore as unlikely to pay (UTP). This resulted in an outflow of Stage 3 as most of the manual UTP resumes payments without incidences.

1.2.2.2. External governance

To respond to the pandemic and its adverse economic effects, multiple authorities took measures. The two most important measures for Crelan Group that were taken by the Belgian government in 2020 and 2021 were the instalment of payment deferrals via a moratorium and loans under state guarantee for professionals (liquidity lines partially covered by a government guarantee).

In 2021, the Belgian government made the following payment deferrals (moratorium) for mortgage and professional loans possible:

- As of January 2021, the second Charter for business and mortgage credit deferral entered into effect. This entailed that mortgage and professional clients could request further payment deferral with the condition that the combined deferrals granted under the first two Charters did not exceed 9 months. The second Charter could be requested as from December 2020 until end of March 2021. The payment deferral of this Charter was limited to a maximum of 3 months. For mortgage loans, a distinction was made between interest suspension with and without recuperations, depending on the vulnerability of the client (< €1,700 net income after credit charges). For professional loans, only suspension of capital instalments (hence no modification loss) was possible.
- In February 2021, a third Charter of payment deferrals towards professional clients was announced. This Charter was only applicable for professional clients that reached the maximum maturity of nine months payment deferral under the first two Charters. These clients could request further capital suspension until end of June 2021.

Next to the moratorium for mortgage and professional loans, the Belgian government also made a moratorium for consumer loans possible in the first half of 2021. This had a non-material impact on Crelan Group.

At the end of 2021, Crelan Group had provided 16,689 EBA compliant moratoria for a gross carrying amount of €1,825,032 thousand. The table underneath gives an overview of the granted EBA compliant moratoria split by entity. All payment deferrals granted due to COVID-19 in 2020 and 2021 were expired at the end of 2021, the clients have picked up their monthly instalments.

Table 4 - EBA Compliant moratoria per entity

	ABB		Crelan		Europabank	
	number obligors	gross carrying amount ‘000	number obligors	gross carrying amount ‘000	number obligors	gross carrying amount ‘000
Granted EBA-compliant moratoria loans and advances	**11,725**	**1,263,802.08**	**3,159**	**476,262.31**	**1,805**	**84,967.36**
of which: Households		**1,076,173.74**		**322,843.36**		**36,147.45**
of which: Collateralised by residential immovable property		**1,044,612.10**		**243,060.74**		**31,202.19**
of which: Non-financial corporations		**159,679.49**		**153,418.95**		**48,819.91**
of which: Small and medium-sized enterprises		**159,679.49**		**150,922.90**		**48,819.91**
of which: Collateralised by commercial immovable property		**72,360.22**		**112,030.36**		**13,445.08**

More details concerning the EBA compliant moratoria of Crelan Group can be found in templates **Covid1** and **Covid2** in Annex.

Next to the extension of payment deferrals, the Belgian government also wanted to further ensure that banks play their role as provider of liquidity to professionals affected by the COVID-19 pandemic. That is why the Belgian government activated a second support package of €10 billion bridge loans which could only be used for new loans and credit lines granted by banks (not valid for refinancing loans). The second payment scheme contains loans with a maximum joint principal of €10 billion. Similar to the first payment guarantee scheme, each Belgian bank had to take an equal share to their current share of outstanding professional loans. Granting of loans under state guarantee type II was possible until 31st December 2021 (with a maximum term of 5 years). All newly granted loans and credit lines to small or medium-sized non-financial enterprises with a term between 1 or 5 years are eligible for this payment scheme.

The guarantee scheme for the pool of supporting bridge loans per bank is the following:

- First 80% of the loss borne by government;
- Remaining 20% borne by the bank.

At the end of 2021, Crelan Group had 358 ongoing loans under state guarantee for a gross carrying amount of €8,215 thousand. The table underneath provides an overview of the active loans under state Guarantee of Crelan Group split by entity:

Table 5 - Loans under state guarantees split by entity

	ABB		Crelan		Europabank	
	number obligors	gross carrying amount '000	number obligors	gross carrying amount '000	number obligors	gross carrying amount '000
Newly originated loans and advances subject to public guarantee schemes	**268**	**7,140.90**	**88**	**903.19**	**2**	**170.41**
of which: Households		**700.71**		**238.06**		**0.00**
of which: Collateralised by residential immovable property		**10.84**		**0.00**		**0.00**
of which: Non-financial corporations		**4,063.67**		**665.12**		**170.41**
of which: Small and medium-sized enterprises		**4,063.67**		**665.12**		**170.41**
of which: Collateralised by commercial immovable property		**1,167.12**		**425.25**		**0.00**

Template **Covid3** of Annex contains an overview of all active loans under state guarantee at the end of 2021 granted by Crelan Group split by sector.

1.3. Impact of the geopolitical (Russia-Ukraine) conflict on Crelan Group

Next to the significant events in 2021 as mentioned in section 1.2, this section covers the risks for Crelan Group related to the conflict in Ukraine and the sanctions towards the Russian Federation (Russia) and Belarus. Following section is split by the general impact on Crelan Group followed by the impact on the investment and credit portfolio of Crelan Group.

1.3.1. General Impact

In general, it can be stated that for Crelan Group the direct impact is limited however this crisis will most likely have a negative impact on economic prospects. The amplitude of the shock and the duration of the impact will highly depend on the evolutions on the terrain and on potential further escalation.

More concretely, energy prices are expected to stay at a high to very high level with an important impact on a number of professional clients with a high energy dependency (for example greenhouse agriculture) and a more general impact on all clients including households. Although impact on household budgets will be partially mitigated by the automatic salary indexation [2], we should take into account a potentially important negative impact on repayment capacity in all customer segments.

Uncertainty may lead to a slowdown in investments, supply chain ruptures, lack of resources, a stagflation scenario, … with all the consequences that this entails. Today it is too early to make any concrete statements on overall economic impact; hence we will apply “hope for the best and prepare for the worse” method and will intensify stress testing exercises (including reverse testing and worst-case considerations). Crelan Group will also leverage on the ECB Climate Stress Test to calculate potential impacts of raising energy prices. The Risk department of Crelan Group will continue to follow-up on this topic.

1.3.2. Wholesale risk (investment portfolio)

The bank’s investment portfolio consists out of sovereign and corporate bonds but within this portfolio there are currently no exposures that are directly related to both countries. In the current context Crelan Group does not expect any losses related to this conflict. On the contrary, investors are taking refuge in low-risk bonds (“flight to quality”).

On the level of the stock markets there is a rather steep decline of stock prices and a flight into gold and other commodities. The decrease of stock prices can negatively impact client portfolios, and this can lead to a decline in the management fees received.

2 The automatic indexation of wages and benefits in Belgium is almost unique in Europe. Only Luxembourg and Malta use the same procedure. Due to this indexation salaries automatically (with negotiations) increase at the rate of inflation.

1.3.3. Direct impact on the credit portfolio

1.3.3.1. Retail segment

Per 31/12/2021 Crelan Group had immaterial exposures and deposits (< €1 million) in relation to clients whose country of residence is Russia or Ukraine.

As a result, direct impacts both on loans and deposits are extremely limited in relation to the bank's portfolios. In addition, the vast majority of this limited amount of loans is to Belgian expats living in Russia. There were no material exposures or liabilities on Belarus.

Additionally, the exposures towards clients with a Russian or Ukrainian nationality or clients with transactions on their accounts towards these countries of Crelan Group were investigated. This amounted to €40 million of loans and €7 million of deposits on ABB side (472 clients) and €2.2 million deposits and €3 million loans (182 clients) on Crelan side (including Europabank).

1.3.3.2. Agricultural segment

On the level of the agricultural portfolio 2 sectors historically had the closest ties with Russia namely apple and pear growers and the pork sector.

Russia used to be an important export market for Belgian apple and pear growers. However, already since the sanctions against Russia in 2014, Russia has banned the import of European fruit. In the meantime, Belgian growers have developed other markets and as such this sector is currently not impacted by the conflict. The total outstanding exposure on this sector amounts to €63 million. Pear growers might still be at risk due to export limitations to Belarus. The total outstanding exposure on pear growers amounts to €37 million.

In fact, the same goes for the pork sector where Russia used to be an important market for Belgian farmers. However, also here after the sanction of 2014, Russia became self-sufficient in pork. The total outstanding exposure on this sector amounts to €100 million.

Additionally, Russia and Ukraine are, among others, important exporters of cereal and fertilizers. It is obvious that these products will increase sharply in price due to the war, which will negatively affect the cost structure of some farmers. On the other hand, there will be a positive effect for Belgian cereal growers.

1.3.3.3. Professional segment

In the professional sector Crelan Group sees no specific sectors or individual clients that are heavily impacted by the war (at least not more than the general economy, see 1.3.1). Currently, Crelan Group only identified a limited number of transactions over our accounts with Russia and Ukraine. Yet, precaution is necessary, as it is known that for many of the professional clients Crelan Group is not the only (and not the first) bank. So, it might be that Crelan Group has a number of clients with sizeable transactions over the accounts of another bank.

1.4. Diversity policy

As mentioned in section 1.2.1.2.2, at the moment there is no overarching diversity policy for Crelan Group under the new structure (after the closing with ABB). Currently, there is one diversity policy for Crelan and one for ABB in place. Both diversity policies state that the banks are committed to promote Diversity and Inclusion (D&I) by creating a work environment where all employees are treated with dignity and respect and where individual differences are valued. ABB and Crelan are committed to equal opportunity in all aspects of employment. They oppose all forms of unfair or unlawful discrimination and will not tolerate discrimination based on age, nationality, ethnic origin, gender, sexual orientation, gender identity or expression, religion, marital status, or disability. Both ABB and Crelan are dedicated to cultivate a diverse and inclusive environment where all employees feel fully engaged and included in our business and strategy to become the "Preferred Company".

The aim of the diversity policies of Crelan and ABB is to ensure, over time, the maintenance of a gender-diverse Board of Directors. More specifically, ABB has set a target of minimum of 40% directors of each gender. While Crelan is striving to reach a minimum of 25% directors of each gender. After the closing with ABB, the Board of Directors consists of 20 members of which 2 women. The intention is to reach the 25% during 2022 by replacing members of the BoD of which the mandate is coming to an end. On the long run the aim is to reach a goal of minimum 33% directors of each gender. The HR department is responsible to create from the Crelan and ABB diversity policy one policy for whole Crelan Group (excluding Europabank) in the coming 2 years.

1.5. Disclosure policy and validation

For purposes of Article 431 of the CRR, Crelan Group is working on a consolidated formal Public Disclosure policy aiming to support a conclusion that our risk disclosures are compliant with applicable regulatory risk disclosure standards and are compiled based upon a set of internally defined principles and related processes. In the current situation with the acquisition of ABB at the end of 2021, there are 2 different public disclosure policies in place at the end of the year. Domain Managers and Process Owners from Finance, Risk and Human Resources assume responsibility for our risk disclosures and govern our respective risk disclosure processes.

The information provided in this document has not been subject to an external audit. As an overall principle, the Risk Disclosure report and its templates are signed off by Crelan's Chief Risk Officer. The report is challenged and validated by the Risk Committee and the Board of Directors. Based upon their assessment and verification we believe that our risk disclosures appropriately and comprehensively convey our overall risk profile.

In line with both Crelan and ABB's Public Disclosure policies, Crelan Group aims to be as transparent as possible when communicating to the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2021 Annual Accounts of Crelan Group and – more extensively – in this publication.

Both reports can be found on the corporate website of Crelan Group at http://www.crelan.be.

If information is already available in the public domain (e.g. Annual Accounts) and it is equivalent in nature and scope to the disclosure requirements, the Risk Disclosure report clearly refers to it. For this purpose, a disclosure map is established (see section 1.6).

If Crelan Group does not intend to disclose specific information, under the circumstances set out in Article 432(1) and (2) of the CRR, i.e. where (i) the information is not material or (ii) the information is regarded as proprietary or confidential, a specific statement will be made, as well as the reason for non-disclosure, in the Risk Disclosure report, validated by the BoD.

As EBA encourages institutions to disclose the quantitative templates in an editable format, the Public Disclosure policy foresees the publication of these templates in a separate Excel referred to as the annex of the Risk Disclosure report (Risk Disclosure Report 2021 Annex.xlsx). The Risk Disclosure Report and its quantitative and qualitative templates will be available in English on Crelan's website.

1.6. Mapping with Pillar 3 requirements

For a number of topics, we refer to the 2021 IFRS Consolidated Financial Statements of Crelan Group (Annual Report) in order to avoid too much overlap or duplication of information. Quantitative templates can be found in the Excel in annex. To improve the readability of the report, a table containing the references to other documents is shown below:

Figure 5 - Mapping table

Article CRR	Disclosure requirement	Risk Disclosure Report	Annual Report Crelan Group 2021
435	Risk management objectives and policies	1.4. Diversity policy 2. Risk Management, objectives and policies 3.1. Capital management Information per risk type, in the sections: - Governance - Risk policy, framework and reporting	7.7. Capital management
436	Scope of application	1.8. Scope	2.4. Structure of Crelan Group
437	Own funds	3.2. Own funds	8.26. Equity
438	Capital requirements	3.3. Capital requirements	7.7. Capital management
439	Exposure to counterparty credit risk	6.5. Counterparty credit risk	7.2.1.3. Derivatives
440	Capital buffers	1.7. Regulatory environment 3.4.3. Countercyclical capital buffer	
441	Indicators of global systemic importance	Not applicable as Crelan Group is not considered as an institution with global systemic importance	
442	Credit risk adjustments	5.2. Credit risk exposures 5.3. Credit Quality	7.2. Credit risk
443	Unencumbered assets	11. Assets encumbrance	
444	Use of ECAIs	7. Use of ratings from external credit assessment institutions (ECAIs)	
445	Exposure to market risk	9.2. Market risk Trading book 9.3. Currency risk	7.3.2. Market risk Trading Book 7.3.4. Currency risk
446	Operational risk	12. Operational risk	7.5. Operational risk
447	Exposures in equities not included in the trading book	5.4.2.3. Participations	8.4.4.4. Financial Assets at Fair Value through OCI
448	Exposure to interest rate risk on positions not included in the trading book	9.1. Interest Rate Risk Banking Book	
449	Exposure to securitisation positions	8.2.1. Securitisation	
450	Renumeration policy	14. Remuneration risk	
451	Leverage	4. Leverage ratio	
452	Use of the IRB Approach to credit risk	5.5. Internal Ratings Based approach	
453	Use of credit risk mitigation techniques	5.3.7. Credit risk mitigation 6.4. Policies for hedging and risk mitigation	
454	Use of the Advanced Measurement Approaches to operational risk	Not applicable for Crelan Group	
455	Use of Internal Market Risk models	9.2. Market risk Trading book 9.4. Prudent valuation	

1.7. Regulatory Environment and Key Metrics

The EU introduced stricter rules concerning capital requirements for banks in the aftermath of the financial crisis that are based on the Basel III accords. The requirements for banks are set out in the CRR and the CRD IV. The CRR/CRD IV was gradually introduced since 1 January 2014 and will be fully in force by 1 January 2023 [3]. In June 2021 the new CRR II / CRD V was implemented. The EU proposed for a CRR III / CRD VI, to be applicable as from 2025.

In order for banks to fully commit their resources to respond to the impact of COVID-19, the original 2022 implementation deadline of Basel III is postponed to 2025.

As of 1st February 2022, Crelan Group became a Significant Institution after the acquisition of ABB. This means the ECB becomes the competent authority for prudential supervision of the group. The supervision is carried out by the Joint Supervisory Team (JST) that consists of members of the ECB and the national competent authority (NBB). From 2022 onwards regular consultations will take place with the relevant supervisors by means of on-site inspections, workshops, interviews and reports.

The **minimum capital ratios** (Pillar 1 requirements) which are to be met by all banks according to CRR/ CRD IV are 4.5% for the common equity tier 1 (CET1) ratio, 6.0% for the tier 1 capital ratio and 8.0% for the total capital ratio.

Besides the minimum own funds requirements of the CRR, Crelan and ABB should also comply with the various buffers that can be imposed in accordance with CRD IV, as shown in the table below

3 Press release BIS of 27 March 2020: www.bis.org/press/p200327.htm

Table 6 - Applicable capital limits of Crelan and ABB at 31/12/2021

	Crelan			ABB		
	CET1	Tier 1 capital	Total capital	CET1	Tier 1 capital	Total capital
Pillar 1 requirement (P1R)	4.50%	6.00%	8.00%	4.50%	6.00%	8.00%
Pillar 2 requirement (P2R) [4]	2.33%	3.11%	4.15%	1.55%	2.06%	2.75%
Total SREP Capital Requirements (TSCR) 2021	**6.83%**	**9.11%**	**12.15%**	**6.05%**	**8.06%**	**10.75%**
Capital conservation buffer	2.50%			2.50%		
Other Systemic Important Institutions (O-SII) buffer	0.00%			0.75%		
Countercyclical buffer	0.001%			0.001%		
Overall Capital Requirements (OCR) 2021	**9.33%**	**11.61%**	**14.65%**	**9.30%**	**11.31%**	**14.00%**

4 CET 1 P2R = 56.25% * TC P2R and Tier 1 P2R = 75% * TC P2R.

Key figures of Crelan Group can be found below:

Table 7 - Key Figures

Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	1	1,841,036,915
Tier 1 capital	2	2,085,437,353
Total capital	3	2,290,726,387
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	4	11,602,421,678
Capital ratios		
Common Equity Tier 1 ratio (%)	5	15.87%
Tier 1 ratio (%)	6	17.97%
Total capital ratio (%)	7	19.74%
Additional own funds requirements to address risks other than the risk of excessive leverage		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	EU7a	4.15%
of which: to be made up of CET1 capital (percentage points)	EU7b	2.33%
of which: to be made up of Tier 1 capital (percentage points)	EU7c	3.11%
Total SREP own funds requirements (%)	EU7d	12.15%
Combined buffer requirement		
Capital conservation buffer (%)	8	2.50%
Institution specific countercyclical capital buffer (%)	9	0.0012%
Other Systemically Important Institution buffer	EU10a	0.39%
Combined buffer requirement (%)	11	2.89%
Overall capital requirements (%)	EU11a	15.04%
CET1 available after meeting the total SREP own funds requirements (%)	12	9.03%
Leverage ratio		
Leverage ratio total exposure measure	13	50,557,728,201
Leverage ratio	14	4.12%
Additional own funds requirements to address risks of excessive leverage		
Total SREP leverage ratio requirements (%)	EU14c	3.28%
Leverage ratio buffer requirement (%)	EU14d	0.00%
Overall leverage ratio requirements (%)	EU14e	3.28%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value -average)	15	7,117,282,251
Cash outflows - Total weighted value	EU16a	4,296,294,242
Cash inflows - Total weighted value	EU16b	307,137,458
Total net cash outflows (adjusted value)	16	3,989,156,784
Liquidity coverage ratio (%)	17	178.42%
Net Stable Funding Ratio		
Total available stable funding	18	48,107,582,108
Total required stable funding	19	33,858,992,967
NSFR ratio (%)	20	142.08%

The regulatory minimum solvency targets were exceeded at the end of 2021 (see template **KM1** in annex).

Crelan Group's Leverage Ratio according to current CRR legislation ('Delegated Act') at the end of December 2021 was at a level of 4.12% which is well above the requirement of 3.28%. Crelan Group applied the temporary measure to exclude central bank exposures from the Leverage Ratio exposure as explained in section 4.2. The Leverage Ratio without excluding the central bank exposures equalled 3.77 % at the end of 2021.

The liquidity position of Crelan Group is robust at the end of 2021. LCR at consolidated level was at 178.42% at the end of 2021.

In the following Table the Return on Assets at the end of 2021 of Crelan Group is given according to Article 90 of CRD IV.

Table 8 - Return on Assets of Crelan Group

	31/12/2021
	a
Return on Assets	
Return on Assets (RoA)	0.20%

The consolidated net income of Crelan Group of 2021 has been hugely impacted by the transactions with AXA (see section 1.2.1). As a result, the impact of the badwill and the gain on the sale of Crelan Insurance is excluded from the RoA calculation. As ABB was bought on 31/12/2021, the net income of ABB has been transferred to AXA and is as a result also excluded from the above Crelan Group RoA calculation. Consequently, only the assets of Crelan and Europabank are included in the RoA calculation of Crelan Group at the end of 2021.

1.8. Scope

1.8.1. Differences in the measurement of exposures

In this section and template **LIA** and **LIB** in annex, we highlight differences in scope between the regulatory and accounting frameworks in order to enhance comparison of reported information for our stakeholders.

Templates **LI1**, **LI2** and **LI3** in annex cover information on the differences in the scope of consolidation and the measurement of exposure. They provide supplementary information on items deducted from own funds, elements that have an impact on the difference in the exposure value between the regulatory and the accounting frameworks (netting, provisions, prudential filters…).

As there is no difference in the basis of consolidation for accounting and prudential purposes, column (a) and (b) of template **LI1** were merged.

Template **LI1** gives a break down on how the amounts reported in the financial statements (a) are to be allocated to the different risk frameworks. The sum of the amounts disclosed under the different frameworks does not equal the amounts disclosed in column (a), as some items are subject to capital requirements for more than one risk framework (e.g. derivatives in the trading book are part of both the counterparty credit risk framework and the market risk framework).

Following items are not subject to capital requirements or are subject to capital deductions:

- Intangible assets: starting from Q4 2020, intangible assets are partially deducted from CET1 and partially subject to capital requirements. As from Q4 2021, the goodwill coming from the acquisition of Europabank is also subject to capital deduction.
- Deferred tax assets (DTA): they are subject to special treatment and are netted with deferred tax liabilities by tax entity. Net DTA that do not rely on future profitability and net DTA that rely on future profitability and do not arise from temporary differences are subject to capital deduction. Net DTA that rely on future profitability and arise from temporary differences below the 10% threshold are risk weighted.
- Liabilities are not in scope, except some derivative and securities financing transactions (SFT) items and some provisions.

Template **LI2** provides information on the main sources of the differences between the financial statements' carrying values and the exposure amounts used for regulatory purposes (gross carrying values).

1.8.1.1. Main drivers of differences in the credit risk framework

- Off-balance amount: this mainly concerns undrawn credit lines subject to a credit conversion factor.
- Differences due to consideration of provisions: re-integration of the provisions in the exposure value.
- Differences due to Securitisation with risk transfer: More information on this securitisation can be found in chapter 8 of this report.

1.8.1.2. Main drivers of differences in the counterparty credit risk framework

- Off-balance amounts: potential future exposure, calculated according to the mark-to-market method, is added as well as off-balance collateral for SFTs [5].
- Difference due to different netting rules.
- Only positive market values are taken into account, meaning that the negative amounts are adjusted to zero. Negative market values are in this way removed from the calculations. This also includes the reduction of the collateral received if this exceeds the market value.
- The Own funds requirements for pre-funded contribution to the Default Fund (DFC) of a qualifying central counterparty (QCCP) is part of counterparty credit risk, but risk-weighted assets are calculated separately according to article 308 of CRR. They appear under a separate line in the different reports.

5 SFTs are transactions where securities are used to borrow cash, or vice versa. This includes repurchase agreements (repos), securities lending activities and sell/buy-back transactions.

1.8.1.3. Main drivers of differences in the market risk framework

- Difference due to different netting rules: no netting applied in market risk framework.
- Differences due to prudential treatment concerns the definition of the long and the short position in the market risk framework according to the CRR.

1.8.2. Scope of consolidation

At 31 December 2021, closing date (see section 1.2.1), the scope of consolidation of Crelan Group includes the following companies: Crelan SA, Europabank NV, Royal Street SA, AXA Belgium Finance BV and ABE Société de Crédit Foncier and CASPR S.à.r.l. These entities are fully consolidated (see template **LI3** in annex).

Crelan SA – CrelanCo CVBA: In accordance with Article 239 of the Law on the Statute of and Supervision of Credit Institutions of April 25, 2014, Crelan SA forms with the recognized cooperative company CrelanCo a federation of credit institutions of which Crelan SA is the central institution. Because of this all liabilities of CrelanCo and Crelan SA are joint and several. Refer to section 1.2.1.1 for more information.

Europabank NV is a 100% subsidiary of the Crelan Group. It is a retail bank aimed at individuals, self-employed and small businesses, and only sells standard products. The bank operates in Belgium (Flanders, Brussels and Wallonia). The bank's activities include lending to customers (natural persons and legal entities) with a slightly higher risk profile. Furthermore, the bank offers payment services through acquiring payment cards. The bank also issues its own credit cards (issuing). Only a limited range of insurance products is offered (debt balance insurance). The bank offers its products through its own branches, brokers and dealers, the internet and Crelan agents.

In Belgium, ABB provides a broad range of financial products to individuals and small businesses and has a network of exclusive independent bank agents who can also provide insurance solutions as a broker (for example from AXA Belgium).

The activities of AXA Belgium Finance consist of issuing notes under programs that are unconditionally and irrevocably guaranteed by its sole shareholder ABB S.A. The notes issued by the Company are mainly placed among European investors. The net proceeds of these notes are lent to ABB that uses the proceeds for general corporate purposes.

Royal Street is a SPV created to securitise a part of ABB's residential mortgage portfolio. As an SPV, Royal Street does not engage in any commercial activity. Currently, Royal Street is fully unwounded and no longer used for ECB funding as discussed in section 8.2.

ABE SCF, a French law governed Société de Crédit Foncier, is a wholly owned subsidiary of ABB and legally bankruptcy-remote from ABB. It is created for the purpose of issuing covered bonds for the benefit of ABB.

ABE SCF must meet the minimum capital requirements imposed by the competent authority. It has no commercial activity as such. It only maintains activities that support ABB's covered bonds program done for liquidity management.

CASPR S.à.r.l, a Luxemburg law governed SPV is a SPV created to securitise a part of ABB's residential mortgage portfolio. As an SPV, CASPR does not engage in any commercial activity. More information on this company can be found in section 8.2 of this report.

1.8.3. IFRS9

Until now Crelan Group has decided not to apply the transitional arrangement to limit the impact of the introduction of IFRS 9 on own funds. The implementation of IFRS 9 is done at once (fully loaded) and no transition is applied. Therefore all "Fully loaded ECL accounting model" lines were removed from the templates in annex.

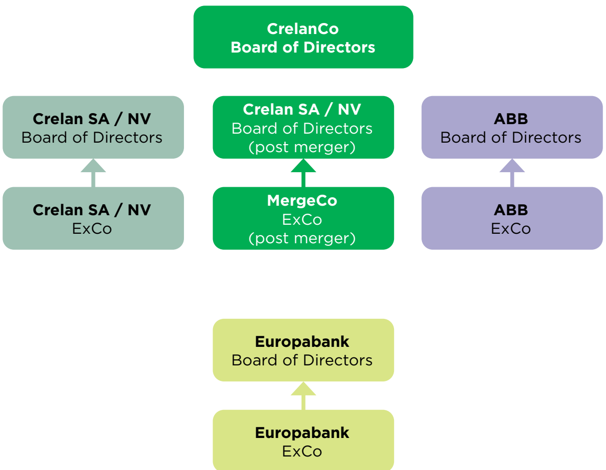
2. Risk management, objectives and policies

2.1. General risk governance structure and organization

The governance structure of the bank describes how Crelan Group is organized after the closing in order to respect the principles of good governance. It explains the roles and responsibilities of the senior management and independent directors, as well as the roles and responsibilities of the risk management department. The various committees that are put in place by Crelan Group are described as well.

2.1.1. Organisational structure Crelan Group

Figure 6 - Governance structure



Cooperative shareholders

As explained in a section 1.8.2, as of the closing date of the takeover of ABB by Crelan Group, Crelan Group consists of 4 legal entities:

- CrelanCo;
- Crelan SA;
- Europabank NV;
- AXA Bank SA (and its subsidiaries).

CrelanCo and Crelan SA constitute a federation of credit institutions under Belgian Law creating a joint and several obligations between them. Both legal entities conduct banking activities and have products on their balance sheet. Crelan SA acts as the central institution and central bank of the federation. Therefore, cooperative shareholders are important stakeholders for the bank.

Crelan bank is organised as cooperative banking group 100% owned by approximately 275,000 shareholders. Cooperative shares are offered on a continuous basis. CrelanCo cooperative shareholders meet annually to validate:

- Nomination and resignation of CrelanCo directors and auditor;
- Validation of CrelanCo annual financial statements;
- Validation of profit allocation / dividend upon proposal of CrelanCo BoD;
- Modification of status and internal rules as required.

Board of Directors

Due to the set-up as a cooperative bank, a distinction can be made between roles and responsibilities of the BoD on Crelanco and on Crelan SA level:

- CrelanCo BoD key responsibilities include:
  - Determination of the Crelan Group strategy;
  - Supervision of cooperative activities and of Crelan Foundation;
  - Review of Crelan Group management delegated to Crelan ExCo;
  - Proposition of allocation of CrelanCo profits / dividends.
- Crelan SA BoD key responsibilities include:
  - Determination and supervision of Crelan Group strategy;
  - Determination of Crelan Group policies including risk appetite;

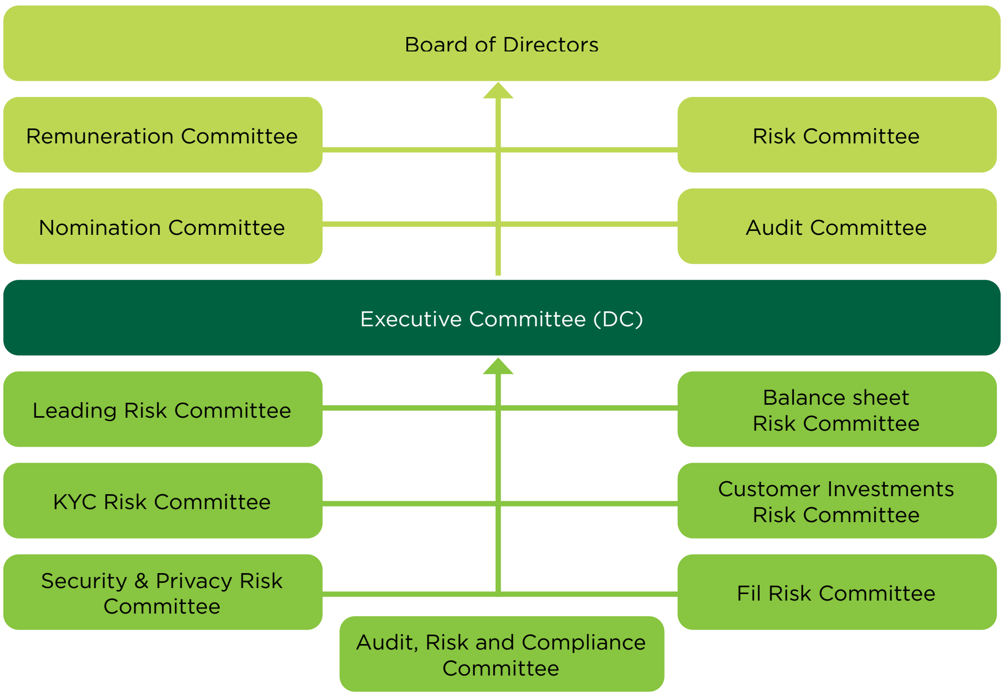
- Determination of financial policy and targets;
- Supervision of Group compliance with regulatory requirements;
- Proposition of allocation of profits / dividends;
- Nomination of key executives and remuneration policy.

The BoD of each Crelan Group entity is responsible for defining its strategy and for the operational implementation of the objectives it has set within the framework of Crelan Group's general policies. The composition of Crelan SA and ABB BoD is expected to be identical prior to the combination between the two entities. More information about the management body can be found in template **OVB** in annex.

Executive Committees (ExCos)

There are 2 ExCos with an identical composition: one for Crelan and one for ABB. The ExCo of each Crelan Group entity is responsible for the implementation of the strategy defined by the BoD and the day-to-day management and control of Crelan Group operations. Additionally, Crelan SA ExCo is also responsible for the day-to-day management of CrelanCo.

Figure 7 - Specific risk committees



Specific risk committees support both the Board of Directors and the Executive Committee via the delegation of roles and responsibilities. The specific risk committees which support the Board of Directors are the following.

Risk Committee

The Risk Committee assists the Board of Directors by means of:

- Proposing an adequate and effective risk strategy and appetite to actual or future risks;
- Providing assistance to assess the implementation of that strategy.

Audit Committee

The Audit committee assists the Board of Directors' oversight of the:

- Adequacy and effectiveness of internal control and risk management framework;
- Financial reporting process and the integrity of the publicly reported results and disclosures made in the financial statements;
- Effectiveness, performance and independence of the internal and external auditors.

Remuneration Committee

The Remuneration Committee assists the Board of Directors by means of:

- Overseeing the compensation system's design and operation;
- Ensuring that the compensation system is appropriate and consistent with the bank's culture, long term business, risk appetite, performance and control environment and any legal and regulatory requirements.

Nomination Committee

The Nomination Committee assists the Board of Directors by means of:

- Recommending candidates, for approbation by the General Assembly, suitable to fill vacant seats on the Board of Directors;
- Elaborating and proposing a policy with regards to recruiting, assessments and resigning of non-executives administrators (dependent or independent), members of the Board of Directors and responsible of independent control functions;
- Examining all concrete propositions of nomination or resigning and by formulating an advice to the Board of Directors;
- Evaluating periodically, at least once a year, the structure, the size, the composition and the performances of the Board of Directors, in order to give recommendations for eventual changes.

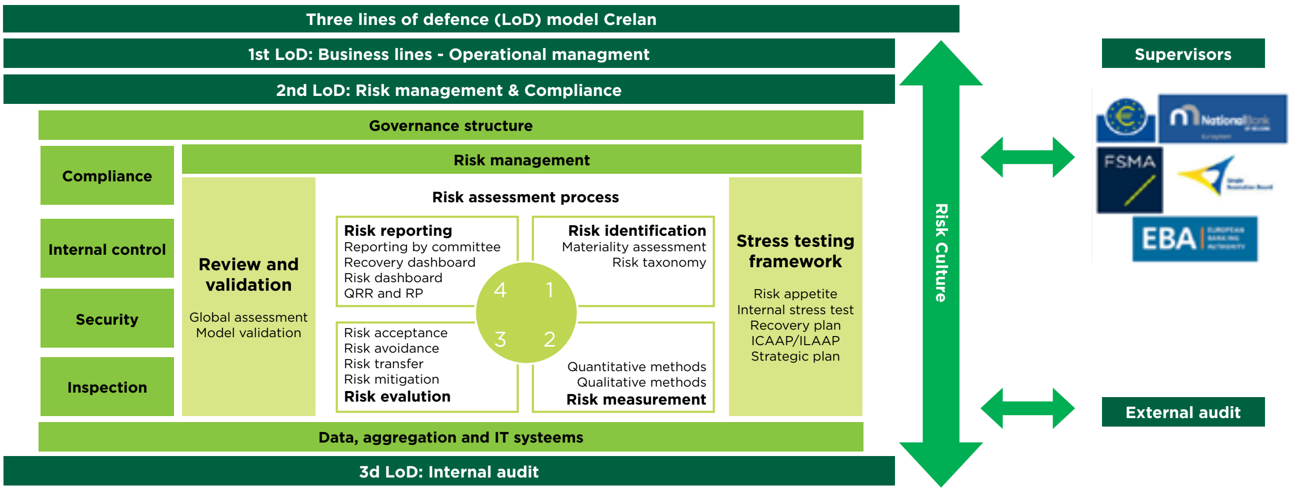
Specific risk committees are responsible to monitor and apply the specific risk strategies set by Crelan Group Executive Committee (in line with the plans and targets set by Crelan Group's BoD).

2.1.2. Structure of the risk management department

Mission

The overall risk management of Crelan Group consists of three lines of defence, of which the Risk Management department is the second one. The mission of the Risk department is to identify, assess and control risk as to maximize the realization of business opportunities and minimize potential losses. This is achieved on an independent basis and in cooperation with different management bodies and committees. The three lines of defence (LoD) for the management of risks within

Figure 8 - Three lines of defence



Crelan Group are illustrated in the figure underneath. Business lines act as a first LoD; they are in the frontline and are firstly responsible to acknowledge and manage risks. They are responsible for the daily monitoring, management and control of risks.

The Risk Management department acts as a second and independent LoD for the management of risks. It ensures compliance with Crelan Group's risk appetite framework (RAF) and therefore that the risks generated by the activities of business lines are identified, measured/assessed, adequately mitigated, monitored and reported. The internal control team (as an integral part of the Risk Management department) sets up checks and controls for all departments and ensures that these controls are adhered to (even for risk management processes itself). Other teams, such as the inspection team (controls on the agency network), the compliance team and the security team are also organised in the 2nd line of defence.

The Audit department acts as third LoD.

A sound risk attitude requires the risk management framework of a bank to be regularly reviewed by both internal and external parties. The objective of these reviews is to assess whether the risk framework is still appropriate and sufficient for managing the risks a bank faces. The external reviews are performed by the regulators (i.e. NBB, FSMA and ECB) and the external auditor. Internal reviews are performed by Crelan Group's own internal audit. A Validation Function is also in place that controls the models developed to assess and quantify risks.

Structure

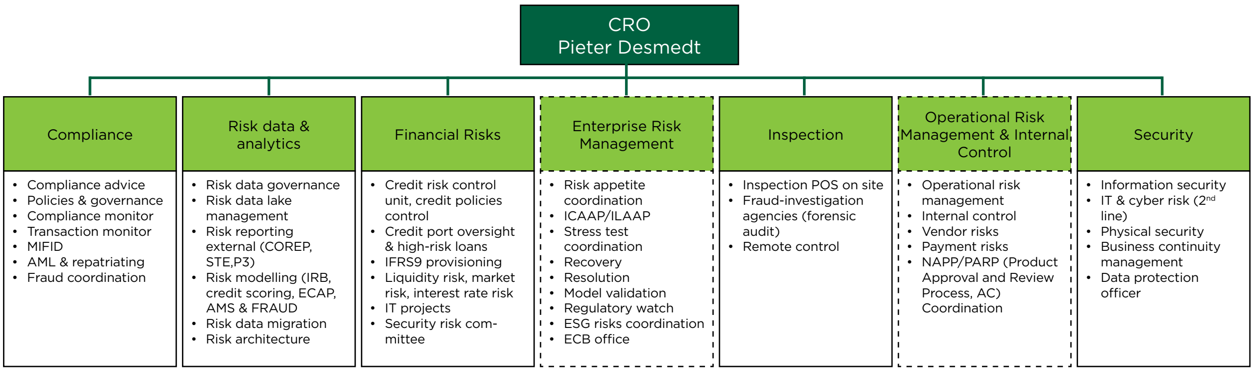
As an independent control function (independent from the business lines) sitting on Crelan's Executive Committee and reporting to its CEO, Crelan's Risk Management department assists Crelan's SA BoD and the specialized risk committees to manage the bank's risks. It acts as the second line of defence in terms of risk management, after the business lines who are frontline and therefore first responsible to manage their risks.

The coordination of the Risk Management department is done by the Chief Risk Officer. The organisational charter of the Crelan Group's Risk Management department as well as their role and responsibilities can be found below.

More in detail, the risk management department's main objectives are the following:

- Play a core role in supporting the Executive Committee for defining, implementing, monitoring and regularly reviewing risk appetite framework, e.g. by translating the bank's risk appetite into operational indicators and limits;
- Ensure that the management of risks is part of Crelan Group's strategic decision-making process, by embedding the risk appetite in the strategic plan and budgeting process;
- Define, implement, and regularly review the risk management framework by ensuring that all material risks are identified, assessed/measured, mitigated and reported:
    - Identification: by yearly reviewing Crelan Group's risk cartography and taxonomy;
    - Assessment/Measurement: by using appropriate indicators and models. This requires ensuring that indicators and models are properly maintained, developed, documented, and validated (by the independent validation team). In addition, models need to be regularly reviewed and back-tested;
    - Mitigation: by ensuring that the required levels of capital, liquidity buffers and processes are in place to adequately mitigate risks;
    - Monitoring/Reporting: by ensuring that reporting processes are in place to control that risk appetite remains within limits. This includes making certain that functional escalation processes are in place to alert management of limit excesses and/or of the materialisation of risk events.
- Ensure that Crelan Group's RAF and risk management processes are documented and reported in various reports for internal and external use;
- Ensure that processes are appropriate for approval of launch of new products or significant changes of existing products via a Product Approval Process (PAP);
- Perform stress testing to evaluate the effects of exceptional, but plausible events on Crelan Group's financial condition;
- Advice the bank in risk/return considerations.

Figure 9 - Risk management organigram



2.2. Risk Management

2.2.1. General

In the exceptional conditions of 2021, Crelan Group ensured a coherent and prudent risk management by applying its risk management framework. The bank has broadly implemented robust strategies, policies, processes and systems for identifying, measuring, managing and monitoring its risks.

The Risk Management framework and the RAF were updated in the first trimester of 2022 because of the closing with ABB (to have an overarching Risk Management Framework and RAF) and because of changes in regulation, processes and strategies.

Crelan Group regularly adapts risk policies in order to stay on track in this constantly changing environment. Risk management believes that arrangements are adequate with regard to the bank's profile and strategy.

2.2.2. Declaration on the adequacy of risk management arrangements (pursuant to Article 435 of the CRR)

The Risk Disclosure report gives a detailed description of the risks that Crelan Group faces and of the Risk Management Framework.

The risk management policy and its organizational structure are designed in such a way that, in our opinion, the known risks are sufficiently identified, analysed, measured, monitored and managed.

Risk management distinguishes the following risk categories: solvency risk, liquidity risk, profitability risk, credit risk, counterparty risk, market risk (interest rate risk and other market risk), operational risk, IT security risk, compliance risk and other risks (business risk, model risk, political and regulatory risk, reputation risk, ESG risk, pension risk and securitisation risk).

The risk management framework and control systems are based on a risk identification process that is combined with prevention and control measures. A strategic risk appetite is determined for the main areas (capital, profitability, liquidity and non-financial risks). This risk appetite model was approved by the Board of Directors and is used as a central tool for managing the risks in the bank.

Crelan Group's risk data and systems support regulatory reporting and disclosures as well as internal management reporting on a regular or ad hoc basis for the different risk types. The various reports are presented to the appropriate committees as indicated in the General risk governance structure section.

These reports show that the financial result was achieved within Crelan Group's risk appetite for 2021 and within the legal requirements.

This provides a reasonable degree of certainty that the risk reporting does not contain material misstatements and that the internal risk management and control systems worked well in the 2021 financial year.

As required in Article 435 of the CRR, the Management Board declared that it is of the opinion that the risk management measures taken, are necessary and appropriate for Crelan Group's profile and strategy.

This declaration is also approved by the Board of Directors.

2.2.3. Risk Appetite

A RAF is the whole set of policies, processes, limits, controls, and systems that banks put in place to define, communicate, and monitor how much risk and what type of risks they are willing to take on and to make sure that risk profile of the bank is in line with this objective.

The risk appetite has to be aligned with the strategy, the bank has to ensure that the envisioned strategy is in line with its risk appetite, the bank should thus not pursue a strategy that is beyond its risk capacity.

The following diagram gives an overview of the different building blocks of Crelan Group's RAF applicable in 2022:

Figure 10 - Building blocks of Crelan Group's RAF

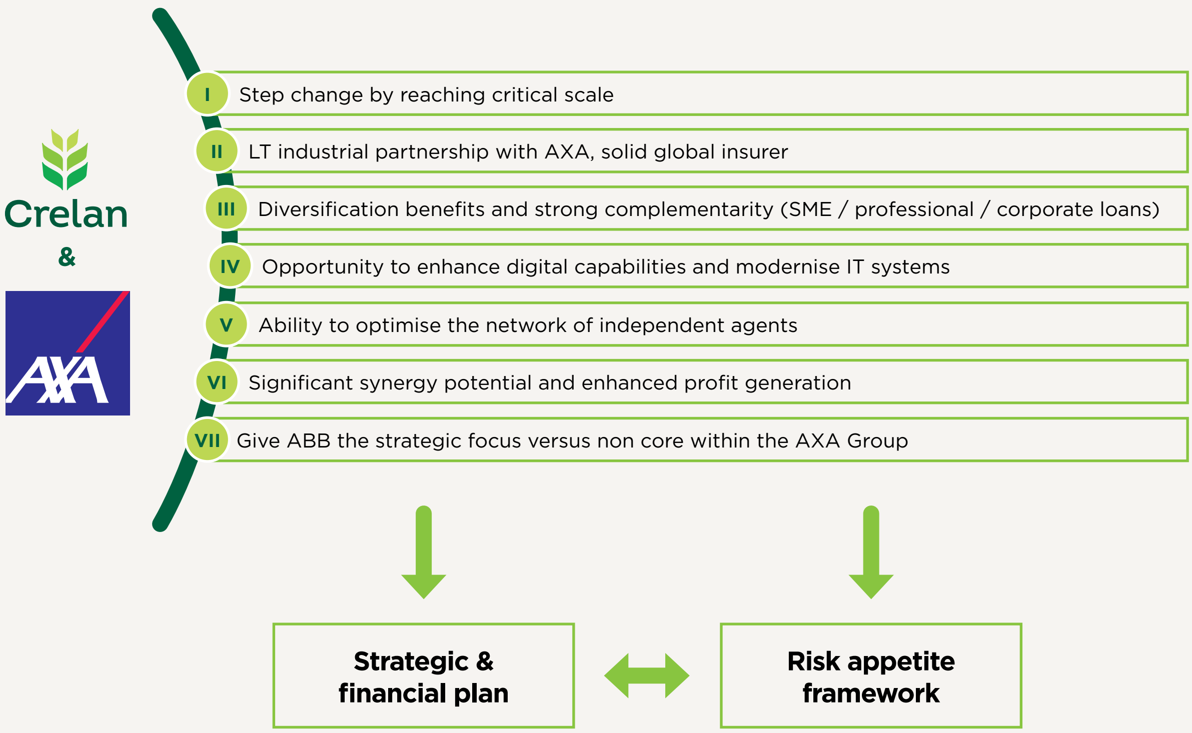
Integration in strategic decision making

The risk appetite statements and their translation into limits is not a standalone exercise. It is equally important as the determination of the strategy. Therefore, the RAF is fully integrated in the strategic & financial planning process of the bank and thus the yearly update of the strategic plan goes hand in hand with the review of the RAF and their respective limits.

The figure below shows the strategy which was set up for the combined bank ABB/Crelan. Strategic choices are dependent on the business model in which the bank operates, the macro-economic environment, the vision of executive management, the mission statement of the bank,… These strategic choices can be of a quantitative or qualitative nature.

Quantitative strategic choices can be linked to accounting figures, budgeting and forecasting figures via financial plans. Other strategic choices cannot be quantified as they concern elements which cannot be expressed in terms of results or financial figures. The execution of the strategy of the bank leads to inherent risks, which need to be identified, measured/assessed, treated, and reported. Integration of the RAF in strategic decision making therefore means that the RAF of the bank is applied or takes as an input both the quantitative strategic choices (e.g. the financial plan) but also qualitative strategic choices. Vice versa, the risk appetite of the bank is an input for the strategic and financial plan. It defines the limits to the risk that the bank is willing to take. This is reflected in the commercial and other ambitions of the bank when setting the strategic plan.

Figure 11 - Interaction between strategy and risk appetite



As can be seen in the next sections, Crelan Group has integrated its strategic decision making in its RAF by:

1. Comprehensive part of the risk management framework

In line with the strategy the bank determines a risk appetite. As explained in the previous section, the starting point to develop a risk management framework are the strategic choices taken by the bank, considering the operating model and the business environment in which the bank operates. The RAF plays a central role in the risk management framework of the bank.

The RAF focuses in more detail on how the RAF is embedded within the risk management framework. The RAF contains the same building blocks as the general risk management framework:

- It is supported by a strong governance;
- It applies data and uses end user computing tools in order to compute the limits;
- It is reviewed and validated on a regular basis;
- It applies stress testing in order to define limits;
- It follows the cycle of the risk assessment process:
  - Risk appetite is only defined for risks which are identified (as per the business model and strategy of the bank);
  - Risk appetite can only be set quantitively if indicators are defined and measured on a regular basis;
  - Risk evaluation is the central component of a RAF, with the setting of quantitative or qualitative risk appetite statements and corresponding limits;
  - Regular reporting on the RAF is done via risk dashboards.

2. Effective governance

Identifying risks, specifying risk appetite statements and defining limits goes hand in hand with a solid governance framework. In Crelan Group's risk identification exercise, a distinction is made between key risks and sub-risks. The key risks are considered as strategic risks, while the sub-risks are considered as functional risks. Therefore, the current RAF foresees 2 follow-up levels:

- Strategic level: the SRAS (Strategic Risk Appetite Statement) define quantitative and qualitative limits on the most important risk dimension of the bank. For each dimensions specific risk metrics are maintained. As such, it defines the limits with respect to the quality and quantity of risk that Crelan is ready to accept or tolerate in order to accomplish its mission and its strategic objectives, taking into account the expectations of all stakeholders.
- Functional level: the FRAS (Functional Risk Appetite Statement) define quantitative and qualitative limits on a more granular level (indicators that are used in day-to-day business decisions).

The SRAS and FRAS are central elements of Crelan Group's RAF. They focus on quantitative and qualitative limits on risk dimensions which allows Crelan to accomplish its mission and its strategic objectives, as well as defining functional limits. These indicators are defined at the top level of the bank (respectively the Board of Directors and the Executive Committee) and are followed up and monitored by the risk department. This framework is complemented by an operational limit framework which is used in day-to-day business decisions by specific business lines. It is the responsibility of the business lines to define an operational RAF where these indicators are defined and limits are set. The responsible sub-risk committee[6] of that business line is responsible for defining the limits, monitoring the operational indicators and performing a risk assessment against the limits of these indicators. The limits are however set in collaboration with the risk department as there needs to be alignment between the strategic and functional limits on the one hand and the operational limits on the other hand.

- Using the strategic/financial and funding plan as an input for most of its strategic quantitative indicators for capital, liquidity and profitability;
- Setting qualitative risk appetite statements or creating indicators to cover strategic choices which are more qualitative in nature.

3. Consistent use and ownership

Risk indicators are defined at all levels throughout the organization. Therefore, it is important that risk indicators and their respective limits are assigned to business lines and that ownership and responsibility is clearly defined.

RAF implementation

The previous section focused on the theoretical concepts on which the RAF of Crelan Group is built. This section explains how these theoretical concepts are applied on a day-to-day basis.

Crelan Group's RAF consists of 2 types of risk appetite statements, namely qualitative risk appetite statements and quantitative risk appetite statements.

6 We refer here to the specific committees (also referred to as business committees) that exist within the bank, which are covered in Section 2.1.1.

1. Qualitative risk appetite statements

These qualitative statements are used to express guiding rules to which the bank wants to adhere or define the risk appetite in these cases where it cannot be expressed quantitatively. It can also serve as an additional enhancement to the quantitative framework.

Business risk:

Crelan Group is a Belgian bank owned by Belgian cooperative shareholders that sells its products on the Belgian market. It therefore focuses on the Belgian market and does not wish to take on commercial risks linked to foreign activities. If positions are nevertheless taken that have a link to foreign markets, these transactions are first subjected to a thorough screening and advanced due diligence of the risks. Crelan Group will only invest in and sell investments products that it fully understands and for which it has the necessary resources to manage these products.

Model risk:

Crelan Group has no appetite for material model risk and mitigates this risk via capital buffers and processes such as the model risk management and validation framework.

Political risk:

Crelan Group has no appetite for avoidable political risk and mitigates this risk via a close follow-up of political evolutions and decisions.

Regulatory risk:

Crelan Group has no appetite for material regulatory risk and mitigates this risk via a follow-up of all regulatory and legal developments, as well as anticipating the importance of regulation before it comes into effect.

ESG risk:

Crelan Group promotes the values of a society where sustainability and corporate responsibility are a central component of everything that we do. In this context the bank recognizes the role that it has to play as a credit institution with respect to the environment, social and governance (ESG) related matters. Within this context Crelan Group will further develop the risk measures in order to integrate ESG in its risk appetite framework, also via quantitative metrics.

Reputation risk - Transparent reporting:

Crelan Group has no appetite for the adverse perception of the image of the bank on the part of customers, counterparties, stakeholders, investors or regulators. The risk is hedged via processes such as the role of a reputation ambassador as well as embedding reputation at operational levels. Crelan Group will put in place a transparent reporting in relation to its financial performance, risk management and other important aspects of company performance. We will aim to make this information understandable and easily available for all stakeholder groups.

Compliance risk:

The Bank attaches great importance to compliance with the legal and regulatory provisions governing its activities and to the implementation of the systems and procedures that ensure such compliance, as well as that of the circulars that apply to them. Through its internal policies and codes of conduct it wants to commit itself to achieving high moral standards and to assuming its social responsibility. In terms of combating money laundering, terrorism and other abuses, Crelan Group is committed to doing everything in its power to combat these practices, including through active and preventive AML policies and systems and to take action where necessary.

Profitability – earnings:

Crelan Group wants to realize stable profitability. Our objective is to be able to pay a fair remuneration for our shareholders and to be able to finance the organic growth of the group without generating a negative impact on the capital ratios. Thus, Crelan Group does not aim to develop activities that generate highly volatile earnings.

2. Quantitative risk appetite statements

Quantitative risk appetite statements are mathematically computed limits linked to risk indicators. These limits should be set at an appropriate level and should be consistent. Crelan Group faces the challenge of combining two banks with two separate risk appetite statements. Therefore, there is a need to align risk metrics, computation methodologies and limit calculations. In order to establish this in a structural way, a 3-phase approach is applied:

- In a first step, the focus lies on the key indicators used to assess financial risks (solvency and liquidity). This is done so that Crelan Group can already have a consolidated financial risk management and follow-up but also to apply the limit framework in its regulatory exercises which are due by end-April (ICAAP/ILAAP);
- Furthermore, Crelan Group recognizes that a number of key indicators are also too important so that they require consolidation as soon as possible. This e.g. covers the non-financial risk framework. This will be therefore developed in the first half of 2022;
- In a third phase, the focus will be on relevant yet less material risk indicators and limits. This will also contain risk indicators derived from Crelan Group's stress test framework.

The quantitative risk appetite statements on strategic level are built around four building blocks that are constructed around the risk taxonomy:

- Solvency: Is Crelan Group sufficiently capitalized to absorb the financial impact of different risks that could happen? Is the risk of leverage sufficiently mitigated?
- Liquidity: Does Crelan Group have sufficient resources to meet its obligations in the short and medium-long term?
- Profitability: Does our activity generate sufficient sustainable profitability to pay a fair compensation towards our shareholders and finance the necessary growth?
- Non-financial indicators:
  - Operational risk: Ensuring that the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations is appropriately mitigated;
  - IT and security risk indicators: Making sure that our IT and security organisation is able to safeguard the assets of the bank and its clients.
  - Compliance risk: Making sure that the bank's potential exposure to legal penalties, financial forfeiture, and material loss, resulting from its failure to act in accordance with regulation is mitigated.
  - Transformation/integration/migration risk: Follow-up on the integration of the two banks and the risks that stem from this integration.

Note that the table below does not yet cover profitability and non-financial indicators as this is part of Phase 2 of the establishment of a Crelan Group RAF in 2022 (expected by end-June).

Figure 12 - Strategic risk appetite statements

Indicator type	Indicator sublevel	Indicator	Ras description
Solvency	Capital	CET1 ratio	Have sufficient capital to withstand a stress scenario and remain above overall capital requirements. At the same time, have a comfortable buffer above regulatory guidance.
		T1 ratio	
		Total capital ratio	
		Economic capital requirement	Have sufficient capital to withstand stress scenario and remain above economic capital requirements.
	Leverage	Leverage ratio	Have sufficient capital to withstand a stress scenario and remain above overall leverage ratio requirements.
	MREL	Minimum Required Eligible Liabilities ratio	Monitor MREL even in the absence of a legal requirement on consolidated level.
Liquidity	Short term liquidity	LCR %	Have sufficient liquidity to withstand a stress scenario and remain above overall LCR requirements.
		ILS excess liquidity	Have sufficient liquidity to withstand a stress scenario and remain above economic liquidity requirements.
	Structural liquidity	NSFR %	Have sufficient liquidity to withstand a stress scenario and remain above overall NSFR requirements.

The table below shows the limits approved by the BoD of Crelan Group in March 2022. As explained above, this only covers phase 1 of the 3-phase integration of Crelan Group's RAF throughout 2022.

Table 9 – Phase 1 RAF limits

Indicator type	Indicator sublevel	Indicator	Alert	Monitoring
Solvency	Capital	CET1 ratio	12%	13%
		T1 ratio	14%	15%
		Total capital ratio	17%	18%
		Economic capital requirement	1.65 bio	1.5 bio
	Leverage	Leverage ratio	3.7%	4%
Liquidity	Short term liquidity	LCR %	125%	130%
		ILS excess liquidity	1.0 bio	1.3 bio
	Structural liquidity	NSFR %	112%	120%

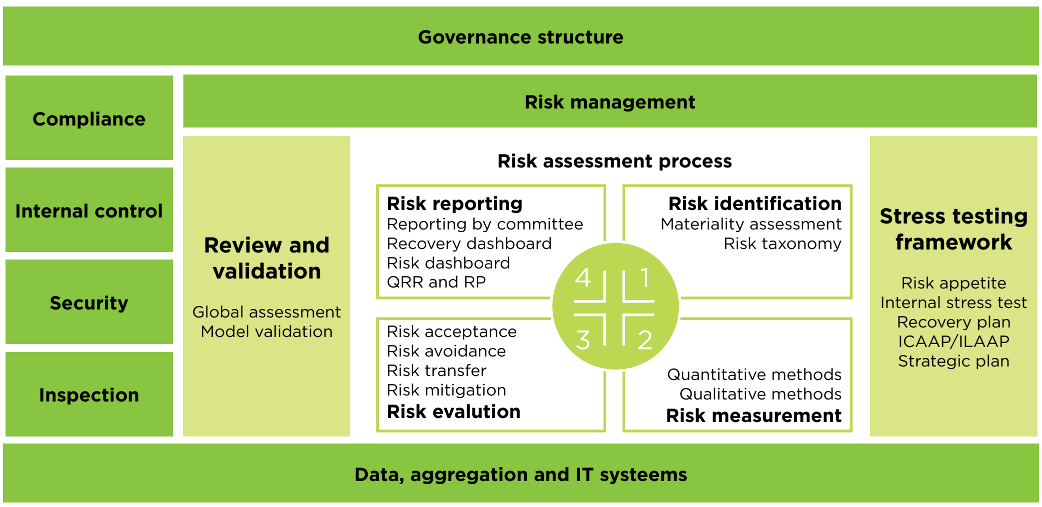
2.2.4. Risk management framework

The business model and strategy of Crelan Group is supported by a comprehensive risk management framework. This section combines the key information found in the general risk charter, risk taxonomy, global risk assessment and the stress testing framework. Furthermore, it provides more information on the risk governance, risk department structure, RAF and risk data, aggregation & IT systems.

The risk management framework is built around five components (Figure 13):

- Risk governance structure and risk management department;
- Risk assessment processes: risk identification, risk measurement, risk mitigation and risk reporting;
- Review and validation;
- Stress testing framework;
- Risk data, aggregation and IT systems.

Figure 13 - Chapter overview: Risk management framework



The general risk management framework is a result of a frequent risk assessment. This is particularly important in an environment that is continuously changing and where, consequently, the risk map is constantly shifting. Furthermore, Crelan Group's Executive Committee reviews on a regular basis the context in which the bank operates. Different subjects are reviewed, among others: market conditions, competition, technological trends, legislative requirements, political environment, key drivers of profitability and sustainability, complexity of the organisation in terms of size, existing strategies and organisational structure (template **OVA** in annex).

2.2.4.1. Risk governance structure and risk management department

The governance structure is described in section 2.1.1.

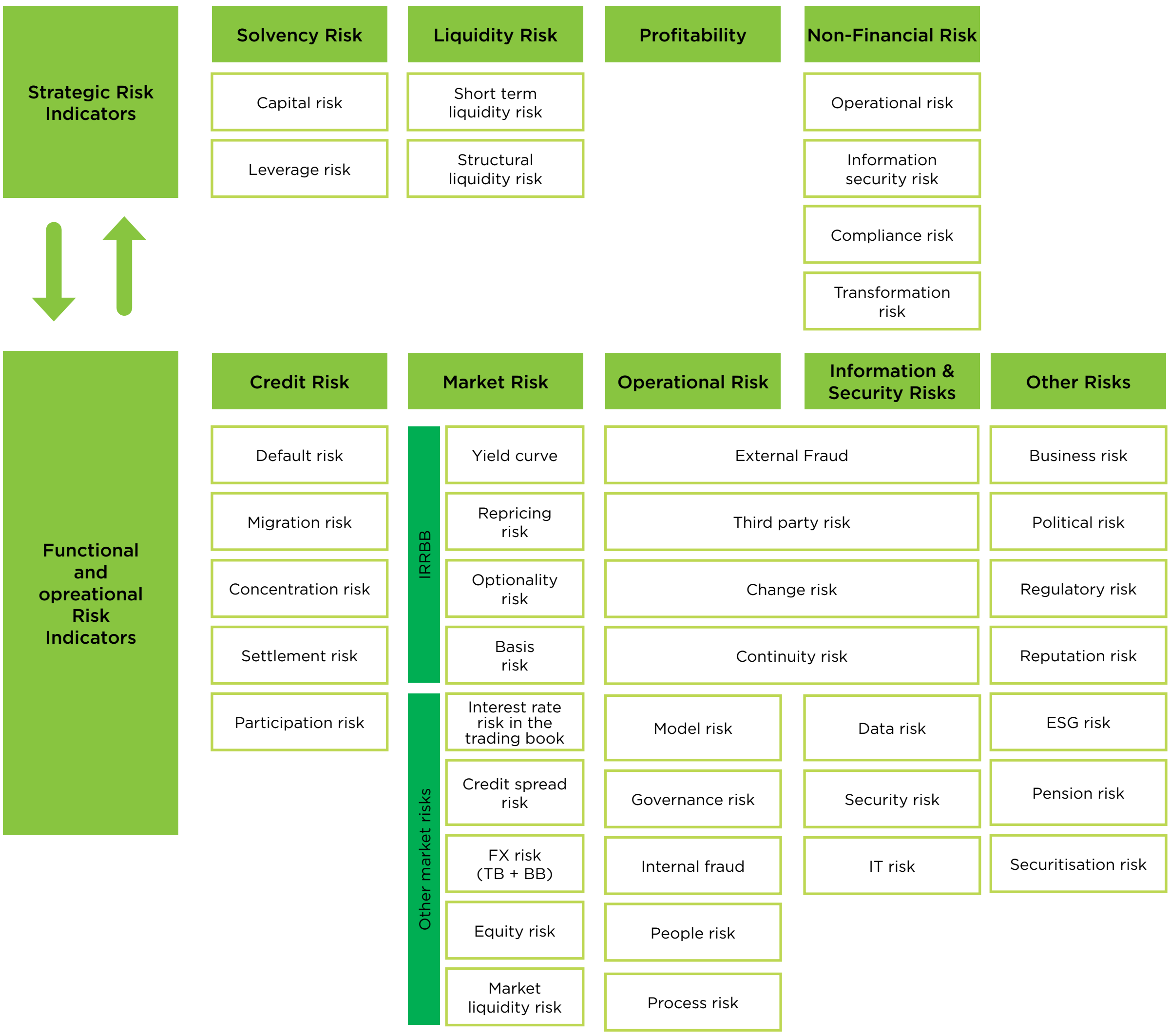
2.2.4.2. Risk Assessment processes

Risk assessment is a process where risks are first identified, then measured and mitigated via qualitative or quantitative methodologies and indicators and finally reported, both internally and externally. This 4-step approach is described in more detail in this section.

Risk identification

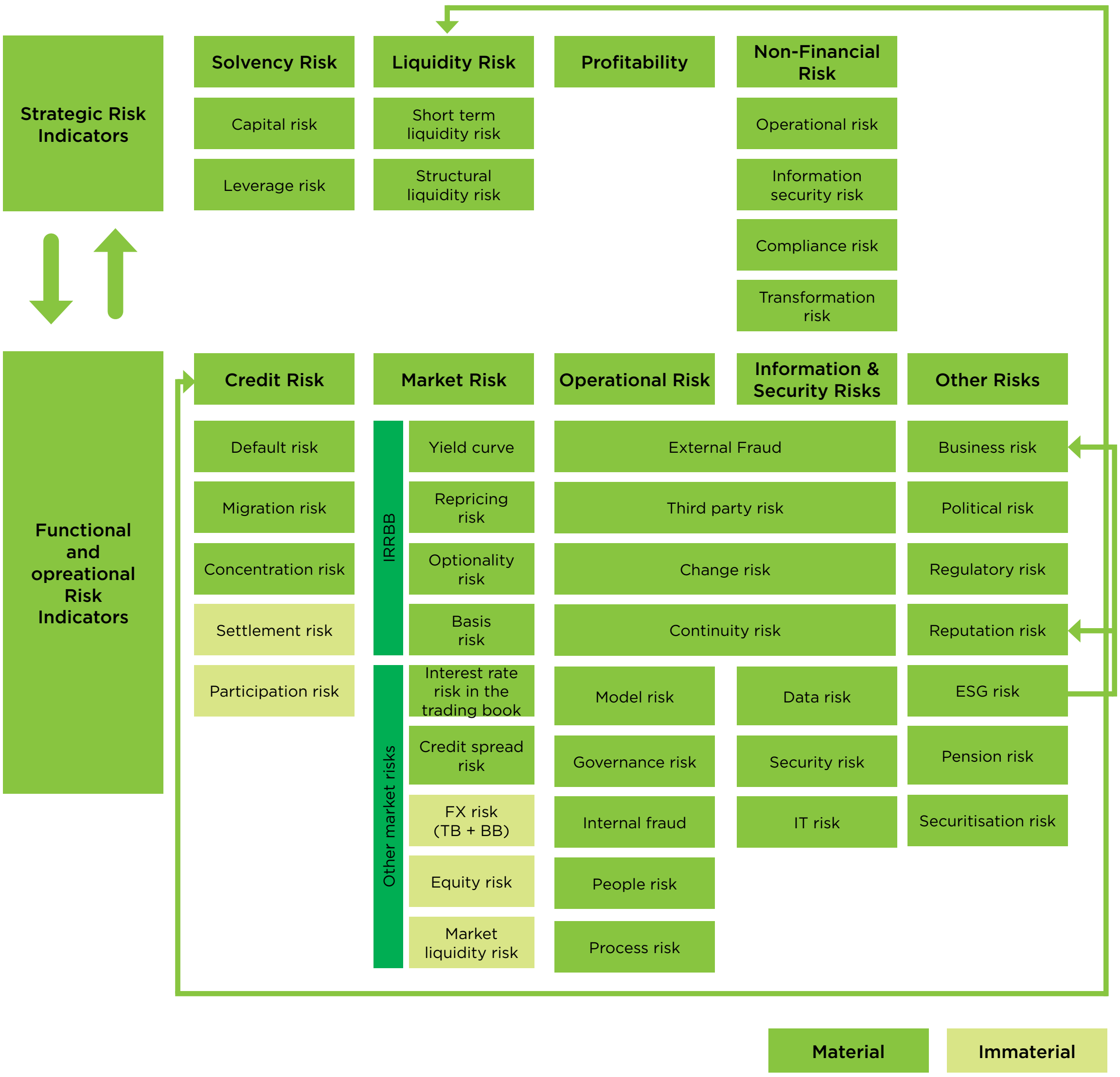
In order to perform proper risk management, the risk management department first needs to identify all risks the bank is facing. The outcome of this exercise is the risk taxonomy, which provides an overview of all the risks the bank is facing. As ABB and Crelan had two separate risk taxonomies before the bank consolidation, the two taxonomies needed to be compared and aggregated into a single risk taxonomy. This risk taxonomy can be found below.

Figure 14 - Crelan Group's risk taxonomy



Simultaneously during the risk identification process, the materiality of potential risks is assessed. The results of this analysis, based on expert judgement, can be found below. Note that ESG risk is considered as a driver of other risks.

Figure 15 - Crelan Group's risk taxonomy



The risk taxonomy makes a distinction between strategic risks and functional risks. In addition, both strategic and functional risks can consist out of financial and non-financial risk. On the strategic level, Crelan Group identified the following key risks:

- Solvency risk: solvency risk covers the regulatory and economic capital risk, as well as risks related to leverage and MREL. Crelan Group defines solvency risk as the risk of being unable to absorb losses, generated by all other types of risk, with the available capital and the risk of excessive leverage of on- and off-balance exposures.
- Liquidity risk, covering both short term and structural liquidity risk:
  - Short term liquidity risk is the risk that Crelan Group cannot meet its financial liabilities when they come due, within the day, overnight, within one day, within one week, within one month and within one year, at a reasonable cost and in a timely manner
  - Structural liquidity risk is the risk that the structural, long term balance sheet cannot be financed at a reasonable cost and in a timely manner. In this view of liquidity risk, the total on-and off-balance sheet positions are considered from a structural ALM perspective
- Profitability risk: Profitability risk is the risk that the profitability of the bank deteriorates or even that the bank has a loss due to evolution of economic indicators, evolution of interest rate curves, a lack of different type of income sources, too high-cost income ratio, exceptional losses on credits, operational events, ...;
- Non-financial risks are all the risks not covered by traditional financial risk management. Crelan Group identifies four major axes with respect to non-financial risk:
  - Operational risk: the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations;
  - IT and security risk: risks related to IT and security organisation being able to safeguard the assets of the bank and its clients;
  - Compliance risk: risks related to the bank's potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with;
  - Transformation/integration/migration risk: Follow-up on the integration of the two banks and the risks that stem from this integration

Risk measurement & assessment

Risk assessment methods may vary from quantitative models to qualitative expressions of expert opinions. They may be organised into estimates of likelihood of events, estimates of consequences of events, and estimates of the combined effect of likelihood and consequences according to the risk criteria. A distinction is made between:

- Risk measurement: this includes setting indicators that are monitored and that are annually assessed. A quantitative calculation or model is applied to compute these indicators;
- Risk assessment: for certain types of risks that are typically managed in a qualitative way, risk is assessed via qualitative expressions or expert opinions.

How risks are measured and/or assessed for each individual risk type (included in the risk taxonomy) is described in the individual risk charters.

Risk evaluation

For all identified material risks, the bank defines a treatment. Risk evaluation is closely linked to the risk appetite framework (RAF) of the bank. This is described in section 2.2.3

Risk reporting

The final step of the risk management process corresponds to the risk monitoring and reporting (internally to management and externally to regulators). Monitoring involves communication both upstream and downstream and across the organisation. It includes periodic reporting and follow-up on the risks by various levels of management and risk committees. The reporting of risks includes the comparison of all material risk exposures against limits. On a quarterly basis, Crelan Group produces the risk dashboard, which is presented to the Executive Committee, the Risk Committee and the BoD via the Quarterly Risk Report and the Risk presentation. Monitoring and reporting processes by type of material risk are defined in the specific risk management charters which are still to be developed on consolidated level.

This risk dashboard will be further enhanced throughout in line with the establishment of the RAF (3 phased approach). Crelan Group also plans to align the recovery dashboard between the two banks (Crelan and ABB) as part of phase 2 of the RAF. A combined recovery dashboard including recalibrated recovery levels is planned for end of June. The recovery plan will be updated by year end.

2.2.4.3. Review and Validation

The risk assessment process and the stress testing framework respectively consider risks in a normal and in stressed market environments. These assessment and measurement methodologies need to regularly reviewed. The global assessment exercise serves as a yearly review of the treatment of individual risks. In addition, the model validation function regularly challenges the quantitative methodologies used to measure risks.

Global assessment

Crelan Group's risk management framework must be regularly reviewed at both internal and external levels. The objective of these reviews is to assess that the risk management framework is appropriate and sufficient. The results of the reviews are translated into improvement objectives which are transposed into recommendations.

The reviews are performed by:

- Crelan Group's internal Audit;
- External auditors (EY);
- Regulators (i.e. the NBB and the ECB);
- Risk Management: via the so-called Global Assessment exercise.

The Global Assessment is a self-assessment that must be performed once a year by the Risk Management department. It is part of the ICAAP process, a requirement under Basel III. The assessment covers major identified material risks.

The Global Assessment is made up of a qualitative assessment. It is performed once a year and is based on the conclusions of interviews performed by using specific questionnaires, assessing the quality of the risk management framework. Interviews are led and organised by the Risk Reporting and Validation team, acting as secretary. They are conducted by inviting different stakeholders: risk managers, business representatives and Audit. The participation of various stakeholders ensures the completeness of the assessment.

The Global Assessment covers five dimensions:

1. Governance: this dimension covers the various risk management policies, the roles and responsibilities of the relevant risk management stakeholders, regulatory compliance, risk identification, risk management documentation and the management of both quantifiable and non-quantifiable risks;
2. Modelling: this dimension covers those mathematical models used to measure and mitigate quantifiable risks, including their methods, governance and documentation;
3. Data and sources: this dimension covers everything pertaining to the data used for the management of risks, including its governance and documentation;
4. Systems and tools: this dimension covers all information regarding the relevant systems and tools used for the management of risks including their governance and their documentation;
5. Reports and uses: this dimension covers all levels and types of risk reporting. For instance, it covers risk appetite reports, internal capital adequacy reports and escalation processes. It also covers the actual usage of risk management reports.

The assessment for each dimension is formulated around the conclusions of the qualitative assessment, quantitative assessment or both. The dimensions (1) "Governance" and (5) "Reports and uses" are mainly formulated around the conclusions of the qualitative assessments. The dimension (4) "System and tools" is formulated around the conclusions of both, the qualitative and the quantitative assessment. The dimensions (2) "Modelling" and 3) "Data and sources", are mainly formulated around the conclusions of the quantitative assessment.

The results of the Global Assessment are used to define improvement objectives, which are then transposed into a global action plan. This global action plan is drafted by both the Risk Management teams and the CRO. The CRO has the final word on the content. The action plan is then presented to senior management. Finally, the action plan is formalized in the ICAAP report which is communicated to the regulator (see template **OVC** in annex for more details).

In case of model design, model redevelopment or significant model changes, the modelling report and the report of the internal validation function are to be discussed with the CRO and are to be submitted to the relevant sub-risk Committee for a formal management review and approval.

Model validation

The model validation function at Crelan Group resides within the ERM team and is responsible for the independent validation of models. It is thus in charge of:

- Setting up the validation process and criteria for model assessment;
- During model development, challenging the choices performed by the modelling team and providing non-binding advices;
- Verifying that the minimal quality requirements of the model are met due to the validation scorecard outlining model weaknesses, limitations and assumptions, and assessing their possible impacts;
- Preparing and submitting the validation reports to the CRO;
- Maintaining the documentation related to the validated and not-validated models in a central repertory and;
- Following-up of recommendations and keeping evidence.

The independent validation function works independently from model owners and modellers and has as objective to provide confidence in the validity of models by verifying that they are performing as expected, i.e. in accordance with their objectives, design and use, and to identify limitations and assumptions in order to ensure a proper and thorough use of the models. The validation conclusions are reported to the CRO and to the relevant Management Board sub-committees.

The necessity of independent validation is specified in Crelan Group's validation guidelines. This process, as well as its governance, should be documented thoroughly by Crelan Group's Risk Management in a specific document [7].

2.2.4.4. Stress Testing Framework

While the risk assessment process of the bank considers the risks that the bank is facing in a business-as-usual environment, stress testing is a natural complement as it evaluates the risks of the bank under stressed conditions.

Stress testing is an analysis conducted to identify the vulnerabilities of the bank to determine whether the bank has enough capital and/or liquidity to withstand the impact of adverse developments, such as the impact under unfavourable economic scenarios. These tests are meant to detect weak spots in the bank at an early stage, so that preventive actions can be taken by the bank itself.

It plays an important role in:

- Providing forward-looking assessments of risk;
- Overcoming limitations of models and/or historical data;
- Feeding into capital and liquidity planning procedures;
- Informing the setting of a banks' risk tolerance/ appetite;
- Facilitating the development of contingency plans;
- Informing supervisors for the annual SREP assessment.

The stress testing framework aims at providing the methodology and process for the performance of stress testing by Crelan Group as part of the risk management process, taking into account the applicable regulation. The scope of the programme extends to all entities managed or controlled by Crelan Group. When performing stress tests all material risk domains of all entities in the scope of the programme are taken into account.

7 This document is named 'Validation framework'

Stress test types

Crelan Group applies various types of stress test methodologies, depending on the purpose and the scope of the stress test exercise.

1. Individual sensitivity analyses

A sensitivity analysis is a stress test that measures the potential impact of a single risk factor or simple multi-risk factors of a specific risk dimension, e.g. liquidity, retail credit risk, capital, trading ratios, derivatives CVA/DVA, interest rate risk… on the financial condition of Crelan Group. The source of the shock is not important.

Sensitivity analysis should be performed on various levels: on individual portfolios, for specific risk dimensions, to the bank as a whole. Sensitivity analysis provides valuable insights into the consequences associated with specified financial shocks. It shows also the point where the bank will come in difficulties. The results of a sensitivity analysis is set off to a predefined limit for such a shock: “if rates go up with x bp, we except a maximum additional risk of Y”. These limits are defined in the RAF.

2. Scenario analysis

A scenario analysis assesses the resilience of an institution or an individual portfolio to a given scenario which combines a set of risk dimensions and a set of assumptions representing a certain confidence level. The scenario should be exceptional but plausible. The different risk factors and dimensions are aligned in a consistent way and represent a simultaneous occurrence of forward-looking events, based on historical events and hypothetical events. In some cases, different degrees of severity are executed (most used level of severity are 1 in 20-year shock (95% confidence) and 1 in 200 year (99.5% confidence)). This type of stress testing is used for multi risk dimension stress test exercises.

3. Reverse stress testing

Reverse stress testing is a stress test which starts from the identification of the pre-defined outcome and then explores scenarios and circumstances that might cause this to occur. It should take all possible side-effects into account. Crelan Group also estimates the likelihood of these scenarios and defines management actions (to rectify business failure, risk appetite, recovery actions…). The purpose is to define scenarios that would result in a situation where Crelan Group could be in trouble or in near default.

This type of stress testing is used in the recovery plan: the point of recovery is defined on different levels for different domains (capital, leverage, liquidity) and given this level the severity of the scenarios is developed. Reverse stress testing is also used to assess the severity of the scenarios for ICAAP and ILAAP stress test and to define mitigating actions in those plans and to challenge the capital and liquidity plans.

Stress test exercises

1. Risk dimensions

For each risk area an individual stress scenario is calculated, which is driven by several parameters.

Figure 16 - Drivers of risk dimensions

Retail credit risk	Stress on retail portfolio (P&L and RWA)	Macro-economic crisis	GDP
			Unemployment
			House prices
	Stress on agriculture sector		Agriculture collateral shock
Market risk	Stress IRRBB (incl. Extra NII on mortgages)	Increase/Decrease EUR interest rates	Interest rates (bp)
		Increase of OLO spread	Belgian spread (bp)
	Stress on value of bond portfolio (FVOCI)	Increase of government spreads	Belgian spread (bp)
			Dutch spread (bp)
			Austrian spread (bp)
			French spread (bp)
			Spanish spread (bp)
			Finnish spread (bp)
			Luxemburg spread (bp)
		Increase of corporate spreads	VaR calculation
	Stress on equities/immo	Haircuts on fair value	Fixed percentage
	Stress on CVA/DVA through capital and through P/L		Increase CDS spread (bp)

Non-retail credit risk	Stress on Crelan	Downgrade Crelan	Downgrade Crelan
			Increase interest rate on deposits (bp)
	Stress wholesale credit risk P&L	Unexpected credit losses	Exposure 95% * PD * LGD
		Default of counterparties	Default of the biggest
	Stress wholesale credit risk RWA	Downgrade financial counterparties	Downgrade financial counterparties
Operational risk	Stress on operational risk	General	TBD
	Information risk	Cyber	TBD
			TBD
Pension risk	Stress on pension fund assets/liabilities		Increase Interest rate (bp) and CDS spread (bp)
Business risk	Loss of market share / production		P&L impact
Liquidity risk	Outflow of cooperative capital Crelan		Outflow cooperative capital Crelan
	Outflow deposits		Outflow deposits ≤ 100,000
			Outflow deposits > 100,000
	Inflow deposits		Inflow deposits

For each parameter an individual shock is calibrated at the 95% and 99.5% confidence interval. Do note the macro-economic and business risk shocks represent a 3-year cumulative that is used in all multi-year stress tests (for stress test exercises with 1 year horizon only the shock in the first year is taken into account). Other risk factors (interest rate, credit spreads, ...) will consider a one-time instant parallel shock or downgrade and the influence of this shock over the period of the stress test exercise. Therefore, no assumptions are made with regard to restoration of these parameters and compared to the macro-economic parameters, which tend to evolve over an extended period of time.

2. Stress scenarios

Crelan Group created a number of scenarios that aim at covering all material risks of the risk taxonomy. In this way, all material risks are assessed under stressed conditions. On a yearly basis, individual shocks are computed for material risks. The stress scenarios provide a narrative in order to combine the individual risk shocks into credible, but stressed market environments. These stressed scenarios and their impact on capital, liquidity, profitability, and other metrics are being used in risk exercises throughout the year, such as the ICAAP/ILAAP, recovery planning or internal stress testing.

This process, as well as its governance, is documented in more detail by Crelan Group Risk Management in a specific document[8].

2.2.4.5. Risk data, aggregation and IT systems

The management, control and monitoring of risk data, aggregation and IT systems is an important pillar within the risk management activities. Crelan Group's business model focusing only on Belgian retail activity makes it possible to develop and maintain processes and systems that enables Crelan Group to have an adequate and complete view on its risk positions. The acquisition of ABB results in additional complexity in the risk processes and systems as the ABB perimeter is still managed within another IT system. In preparation of the acquisition process of ABB by Crelan important investments were done to develop aggregation capabilities between Crelan's and ABB's balance sheets.

8 This document is named 'Stress testing framework 2022'

3. Own funds and capital requirements

3.1. Capital Management

Under the EU Capital Requirements Regulation and Directive (CRR/CRD IV) as well as the Basel accords, Crelan Group must maintain a minimum level of own funds to cover their credit, market and operational risks. This obligation is known as the "Pillar 1 Minimum Regulatory Capital Requirement". Banks must also have in place sound, effective and complete strategy and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed to. This obligation is known as the "Pillar 2 Economic Capital Requirement" and is assessed in the context of the supervisory review. In addition to the Pillar 1 and Pillar 2 requirements, Crelan Group also adheres to combined buffer requirements, comprising of the capital conservation buffer, the countercyclical capital buffer and the other-systemic important institution buffer. These capital requirements lead to the overall capital requirements of the bank.

The capital risk is the risk that the bank has or may have insufficient capital to cover the risks to which the bank is exposed. In practice, this is translated into a cross-check of the capital base against the minimum regulatory capital requirements and capital guidance.

The bank reports the required economic capital to the supervisor in an annual ICAAP file. The ICAAP is the internal review process of the institution itself, which allows it to assess the adequacy of its capital in light of its risk profile and its organization. Crelan Group considers its capital adequate if:

- In a normal market environment, the capital risk metrics are above the alert level of the RAF and the profit generating capacity is sufficient in order to restore the risk metrics above the monitoring level in a 3-year time horizon. If this is not the case, realistic management actions can be applied;
- In an adverse market environment, the capital risk metrics are above the regulatory thresholds (Pillar 1 and Pillar 2) and can be restored above alert level by realistic management actions in a 3-year time horizon.

The adequacy of capital is defined on a normative and an economic level. The normative approach is a forward-looking approach that starts from the multi-year projections made in the strategic plan. The strategic plan projections are translated into a regulatory capital plan. In addition, the general stress test framework of Crelan Group provides alternative scenarios under which the adequacy of capital is assessed. Next to the normative approach, Crelan Group developed economic capital models as an alternative and complementing methodology to assess the adequacy of its capital. In this approach, risks are assessed from an economic point of view, and sensitivity analyses on the parameters of the economic models are performed.

In both approaches, a risk assessment is performed where capital indicators are tested against the RAF of Crelan Group. Crelan Group developed a RAF where limits are put in place on multiple levels: monitoring (early warning indicator) and alert. The governance framework of Crelan Group states that in case of an alert level breach, the Executive Committee presents an action plan containing management actions to the Board of Directors. Therefore, the ICAAP also contains a non-exhaustive list of management actions that can be taken in case there is an alert level breach of the risk appetite framework (RAF).

The capital base is carefully monitored by the BSRC. The committee is supported in this mission by a sub-committee: the CFC. The CFC oversees new regulations (‘regulatory watch’), follows up on the current and projected solvency ratios and anticipates and manages the economic and regulatory capital requirements.

The calculations for regulatory capital are reported to the supervisor (COREP) on a quarterly basis.

3.2. Own Funds

The own funds for solvency requirements are different from the equity in the financial statements. Equity as reported in the Annual Accounts of Crelan Group is determined on the basis of IFRS.

The reconciliation of the accounting equity based on IFRS with the own funds for solvency requirements can be found in template **CC1** in annex.

Crelan Group is allowed to include the consolidated net profit for 2021 (€682,192 thousand) minus the dividend pay-out (€26,605 thousand) into capital. The net contribution to the capital position is €655,588 thousand. The badwill of €599,000 thousand linked to the acquisition of ABB has been the main driver of the profit. This strengthened the equity of the Bank. The CET1 is further determined by the deferred tax assets, intangible assets, securitisation, IRB shortfall, other deductions, and the value adjustments.

The accounting capital will be adjusted with prudential filters, deductions, and transitional adjustments.

3.2.1. Prudential filters

The CRR specifies a number of prudential filters (articles 32 to 35 of the CRR) which lead to an exclusion of certain items of CET1 capital. The following prudential filters apply to Crelan Group:

Changes in the value of own credit risk on fair valued liabilities and related to derivative liabilities. At the end of 2021 this amounts up to €326 thousand to be deducted from the capital position.

Value adjustments as result of the requirements for prudent valuation: this is a specific requirement concerning the financial instruments measured at market value in the IFRS balance sheet to ensure that prudent valuation is reflected in the calculation of own funds. The amount of €1,299 thousand was deducted at the end of 2021.

3.2.2. Deductions

A certain number of items have to be deducted from CET1 capital (articles 36 to 49 of the CRR):

- Intangible assets: the deduction of intangible assets (mainly software) already existed under Basel I (and II). Starting from Q4 2020, ‘prudently valued software’ or software (intangible) assets can be partially excluded from capital deductions and risk-weighted at 100%. As a results, the deduction for end of 2021 equals to €-12,286 thousand.
- Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities: at the end of 2021 €-13,152 thousand was deducted from CET1.
- IRB shortfall: when the IRB approach is applied to calculate credit risk, banks are required to compare their actual provisions with their expected losses. Any shortfall should be deducted from CET1 while an excess will be eligible for inclusion in Tier 2 capital subject to a cap. A shortfall of € 15,400 thousand was deducted at the end of 2021.
- Securitisation: in Q4 2021 the synthetic securitisation transaction was set up as an RWA reduction measure. The capital deduction is the consequence of the retained risk related to the first loss tranche and equals €2,825 thousand.
- Insufficient coverage for non-performing exposures results in a capital deduction of €574 thousand.
- Additional deductions of CET1 Capital due to Article 3 CRR: these concerns the contributions to the European resolution mechanism recorded on the balance sheet. Next to this, the prudential provisions for the stock of non-performing exposures (NPEs) is reported. The combined amount concerns a deduction of €12,473 thousand.

All items that are not deducted (i.e. amounts of net DTA below the threshold) are subject to a risk weighting.

3.2.3. Transitional adjustments

With the introduction of the CRR, transitional measures are provided in order to gradually include unrealised gains and losses measured at fair value in determining the Core Tier 1 capital. In 2018 this transition period ended meaning that 100% of the Other Comprehensive Income (OCI) of the available-for-sale portfolios is included in the Own funds. The deduction of the deferred taxes was also subject to the phase-in which ended in 2018.

With the implementation of IFRS 9 (as of 1/1/2018), the unrealised gains and losses of the portfolios that will be valued at FV OCI (Fair Value through OCI) will be different as there will be another classification and measurement depending on the business models and SPPI tests.

Capital instruments that no longer qualify as AT1 or T2 capital under the CRR/CRD 4 are subject to grandfathering rules during a transitional period and are phased out from 2013 to 2022 with their recognition capped at 10% in 2021 and the cap decreasing by 10% each year.

3.2.4. Own funds for solvency requirements

The CET1 of Crelan Group amounts to €1,841,037 thousand at the end of 2021.

Crelan Group is allowed to include the consolidated net profit for 2021 (€682,192 thousand) minus the dividend pay-out (€26,605 thousand) into capital. The net contribution to the capital position is €655,588 thousand.

The total own funds for solvency requirements include:

- CET1
- additional Tier 1 capital consisting of convertible bonds;
- Tier 2 capital, consisting of the useful value of the subordinated loans, perpetual subordinated loans including Basel III transitional measures.

Table 10 - Total Capital

TOTAL OWN FUNDS FOR SOLVENCY REQUIREMENTS (in '000 EUR)	31/12/2021
Common Equity Tier 1 Capital	1,841,037
Additional Tier 1 Capital	244,400
Tier 1 Capital	**2,085,437**
Subordinated debt	205,289
Perpetuals grandfathered	0
Perpetuals phase out	0
Eligible Perpetual Subordinated debt	0
Tier 2 Capital	**205,289**
TOTAL OWN FUNDS FOR SOLVENCY REQUIREMENTS	**2,290,726**

The total own funds of Crelan Group is €2,290,726 thousand at the end of 2021. Basel III established certain high-level disclosure requirements to improve transparency of regulatory capital.

Capital instruments' main features can be found in template **CC2** in annex. The Main features of regulatory own funds instruments and eligible liabilities instruments can be found in template **CCA** of the annex.

3.3. Capital requirements

3.3.1. Key Metrics

An overview of the most important capital and liquidity requirements at the end of 2021 can be found in template **KM1**.

3.3.2. Regulatory capital requirements

The regulatory requirements are based on the concept of RWAs as described in CRD IV. Crelan Group measures its regulatory capital requirements using the following methods for each entity:

Figure 17 - Regulatory capital methods

Risk Category		AXA Bank Belgium	Crelan	Europabank
Credit risk	Retail Credit Risk (Mortgages, Consumer & Professional loans)	Internal Rating Based Approach	Internal Rating Based Approach	Standardised Approach
	Retail Credit Risk (Other loans)	Standardised Approach	Internal Rating Based Approach	Standardised Approach
	Non-Retail Credit Risk	Standardised Approach	Standardised Approach	Standardised Approach
	Counterparty Credit Risk (Derivatives)	Standardised Approach for CCR	Standardised Approach for CCR	NA
	Counterparty Credit Risk (SFT)	Financial Collateral Comprehensive Method	Financial Collateral Comprehensive Method	NA
Market risk	Market Risk Traded debt instruments	Standardised Approach	NA	NA
	Market Risk Foreign exchange	Standardised Approach	NA	NA
Operational risk		Standardised Approach for OR	Standardised Approach for OR	Standardised Approach for OR

The regulatory requirements are based on the concept of RWA.

The Pillar 1 minimum regulatory capital requirements foresee in different calculation methods, which are defined specifically in the regulation. The risk weighted assets are calculated according to the specific Basel calculation rules for weighted risks for which ABB and Crelan have received approval.

In most cases the Standardised Approach (SA) or The Standardised Approach (TSA) for operational risk, is used by the group. The Internal Rating Based Approach (IRB) is applied to the retail loan book.

The RWA of Crelan Group under the Basel III rules amounted to €11,602,422 thousand on December 2021.

Template **OV1** in annex shows the RWA and the capital requirements according to Basel III pillar 1. The other risk exposure amount refers to the additional stricter prudential requirements based on Art 458 of the CRR. The Belgian regulator has requested, for all Belgian banks using IRB models, an add-on of 5 % from all Belgian mortgage loans. This additional capital requirement, calculated as a 5% add-on on the IRB exposure value for mortgages covering residential real estate in Belgium, is represented in this amount.

A new additional add-on was approved by Belgian government and took effect in the first half year of 2018. This additional capital requirement is calculated by applying a factor 1.33 (33% add-on) to the IRB RWA for mortgages covering residential real estate in Belgium.

3.3.3. Economic capital requirements

Under Basel III principles, the measurement of economic capital requirements must take into account all identified material risks (hedged through capital).

It must also take into account planned (expected) business growth. In order to assess capital requirements on a forward-looking basis, Crelan Group's strategic plan is tested versus the risk appetite framework. Therefore, capital requirements are forecasted over the full horizon of the plan for every business line/activity by using the assumptions embedded in the strategic plan.

As some risks are not fully correlated to others, the measurement of economic capital requirements may also be adjusted (and reduced) for diversification benefits between risks. Crelan Group's correlation matrix aims at estimating correlations between business lines as well as correlations between risk types.

Crelan Group may also adjust (i.e. increase when relevant) its capital requirements based on its analysis of stress testing exercises. From an economic perspective, Crelan Group's excess capital can be measured by subtracting from Crelan Group's available internal capital under stress its total economic capital requirement as defined above. The available capital must always exceed Crelan Group's total economic capital requirements.

Economic capital methodologies vary between ABB and Crelan. Therefore, Crelan Group decides on a consolidated approach in 2022. This consolidated approach:

- Starts from the risks which were identified by ABB in the 2021 ICAAP. Therefore, not only the financial risks such as IRRBB and market risk are included, but also credit risk;
- The general idea is that Crelan tries to measure 1 in 1000-year shocks per risk type for the most material risks: credit risk and IRRBB;
- For business risk, the scenario approach of ABB was maintained but on the entire portfolio;
- The correlation matrix of ABB was maintained;
- For the other, less material risks, Crelan falls back to the regulatory approach where RWA amounts are translated into capital requirements.

3.4. Capital Adequacy

3.4.1. Crelan Group's capital adequacy objectives

Crelan Group's capital objective is to respect the following minimal capital requirements at any time under current and stressed market conditions:

Minimum Regulatory Capital Requirement (regulatory capital vs. own funds)

Maintain sufficient own funds to exceed minimum regulatory capital requirements. In addition, in a normal market environment the regulatory solvency ratio should be above the alert level of the RAF and the profit generating capacity should be sufficient in order to restore above the monitoring level. In an adverse market environment, it should be possible to restore the capital ratios above the alert level of the RAF.

Economic Capital Requirement (economic capital vs. internal capital)

Crelan Group's main Pillar 2 objective is to remain sufficiently capitalised to be able to cover at all times all of its material risks hedged through economic capital calculated with a 99.9% confidence interval over a defined time horizon [9]. A similar link is made with the RAF as for minimum regulatory capital requirements.

3.4.2. Regulatory capital adequancy

The regulatory solvency ratios compare the own funds of the Bank to its RWA. Crelan Group shows sufficient solvency at the end of 2021 after the closing with ABB. The Common Equity T1, T1 and total capital ratio consider the transitional provisions of Basel III.

As per 31 December 2021, Crelan Group Tier 1 ratio stands at 17.97% and total capital ratio at 19.74%.

These same ratios fully loaded, i.e. calculated as if Basel III is already in full force, amounted to 17.97% and 19.74%, above requirements, demonstrating that the bank has anticipated the implementation of Basel III.

9 Important to note: The standard time horizon that ABB uses to measure its risks is one year. Some risks are evaluated on a shorter horizon since their exposures are easier to hedge or sell in time of stress

Table 11 - Crelan's regulatory capital ratio at consolidated level

Regulatory capital (in '000 EUR)	31/12/2021
CET1	1,841,037
TIER 1	2,085,437
TOTAL CAPITAL	2,290,726
RISK WEIGHTED ASSETS	11,602,422
CET1 ratio	15.87%
T1 ratio	17.97%
Capital ratio	19.74%
Fully loaded CET1 ratio	15.87%
Fully loaded T1 ratio	17.97%
Fully loaded total capital ratio	19.74%

3.4.3. Countercyclical capital buffer (CCyB)

In template **CCyB1** in annex, the geographical distribution of the bank's credit exposures relevant for the CCyB calculation for December 2021 is shown. Countries with a total risk weighted exposure above €1 million are shown along with Russia given the conflict in Ukraine and the countries for which a countercyclical buffer rate is applicable. Countries with an exposure below €1 million are allocated to "Other countries".

Almost 99% of total relevant exposure (all exposures excluded the ones treated as governments and exposures to institutions) is related to Belgium. The NBB has set the countercyclical buffer percentage for credit risk exposures to counterparties established on Belgian territory at 0% for each quarter of 2021.

The countries in which ABB has relevant exposures that have a countercyclical buffer rate above 0% are Bulgaria, Czech Republic, Hong Kong, Luxemburg, Norway and Slovakia. The exposures to these countries represent only 0.3% of the total exposures and this impact is negligible in the CCyB calculation. Details can be found in template **CCyB2** in annex.

3.4.4. Economic Capital Adequacy

The economic capital risk assessment defines a limit which is based on the internal capital definition. It starts from the amount of internal capital but takes into account a 1 in 1000-year stress scenario on internal capital. In this regard, the limit is consistent with the definition of capital demand, where also a 1 in 1000 scenario is applied. In order to adjust internal capital to reflect this stress, Crelan Group starts from the regulatory CET1 building blocks and calculates a 1 in 1000-year stress on the amount of cooperative shares, due to redemptions by cooperators.

The cooperative capital of CrelanCo is subject to monthly calls for repayment of the invested amount by cooperators and, on the other hand, by repayments of the invested amount as a result of the decease of cooperators. Based on historical figures from July 2014 to December 2021, the maximum amount of repayment is calculated with a probability of 95% on the one hand and a probability of 99.9% on the other. The table below provides an overview of all redemption requests (excluding deceases) from July 2014 (to be redeemed in May 2016) to December 2021 (to be redeemed in May 2023).

Table 12 - Cooperative shares stress scenarios

(000 EUR) Month	Repayments capital:							
	May ‘16	May ‘17	May ‘18	May ‘19	May ‘20	May ‘21	May ‘22	May ‘23
7	128	272	248	741	547	515	31	315
8	118	280	376	890	716	442	4	397
9	124	415	392	820	743	612	906	458
10	363	474	614	1.355	856	671	750	404
11	433	513	624	1.277	753	764	613	401
12	511	557	745	1.086	850	730	858	683
1	900	1.087	1.446	2.437	1.585	1.579	2.177	
2	1.020	985	1.464	1.940	1.278	1.133	1.577	
3	1.253	845	1.851	1.965	1.522	797	1.637	
4	998	1.112	3.118	2.144	1.445	725	1.830	
5	1.289	1.376	3.856	3.174	2.159	1.464	1.636	
6	1.915	1.877	4.620	3.489	2.122	2.753	3.081	

Based on this historical series, we determine per month the 95% percentile and the 99.9% percentile and then sum them. This gives a maximum annual loss of capital of €22.5 million at 95% probability and €24.2 million at 99.9% probability.

Table 13 - Cooperative shares withdrawals

(000 EUR) Month	Repayments percentile 95%	Repayments percentile 99,9%
7	673	740
8	829	889
9	876	906
10	1.180	1.352
11	1.097	1.273
12	1.006	1.084
1	2.359	2.433
2	1.831	1.938
3	1.931	1.964
4	2.826	3.113
5	3.651	3.852
6	4.281	4.614
	22.541	**24.157**

In addition to these monthly withdrawals, there are also monthly immediate repayments of capital upon the decease of a cooperator. For the entire year 2021, these repayments amounted to €12.9 million. The total of monthly withdrawals and immediate repayments therefore amounts to €35.4 million at 95% probability and €37.1 million at 99.9% probability.

After deducting this amount from CET1, Crelan applies a prudent buffer of approximately €150 million, which reflects potential stress on other elements of CET1 in a 1 in 1000 year scenario, such as the net income of the year, OCI, intangible assets, IRB shortfall, prudential provisioning, … In next iterations, this buffer will be recalibrated.

This leads to the following alert and monitoring limits as per 31/12:

- Economic capital alert limit: €1.65 billion;
- Economic capital monitoring limit: €1.5 billion.

One can then compare the limits of the RAF to the ECAP requirements calculated in the previous section. This risk assessment is shown in the table below.

Figure 18 - Comparison limits of the RAF to the ECAP requirements

Economic capital (in € mln)		Dec 2021
CREDIT RISK	Retail Credit risk BE	788.55
	Non retail & other credit risk	24.66
MARKET RISK	Banking Book (IRR, basis, CS ,FX ,liq)	187.80
	Trading Book (T&B, EDP)	1.28
OPERATIONAL RISK		90.04
BUSINESS RISK		41.97
TOTAL ECAP BEFORE DIVERSIFICATION		1,134.3
Economic capital (in € mln)		**Dec-21**
Total Economic Capital Consumption (after diversification)		**1,015**
Alert limit		**1,650**
Excess vs alert		**635**
Monitoring limit		**1,500**
Excess vs Monitoring		**485**

4. Leverage ratio

The leverage ratio is a supplementary measure to the Basel framework. It is defined as Tier 1 capital over the bank's total leverage exposure measure, which consists of both on- and off-balance sheet items. The aim is to constrain excessive leverage and to bring institutions' assets more in line with their capital. Qualitative information on the Leverage Ratio of Crelan Group is disclosed in template **LRA** in annex.

Crelan Group's leverage ratio according to current CRR legislation ('Delegated Act') at the end of December 2021 was at a level of 4.12%. The Leverage ratio at the end of 2021 is explained by the Tier 1 capital as discussed in 3.2.4 and the reported leverage exposure. The reported leverage exposure decreased by €-4.8 billion at the end of 2021 to a level of €50.6 billion, this decrease is explained by the exclusion of exposures to central banks on 31/12/2021. Crelan Group is applying the temporary measure where it is allowed to exclude certain central bank exposures from their leverage ratio exposure.

The different Leverage ratio components at consolidated level can be found in the table below.

Table 14 - Leverage ratio components at consolidated level

Leverage Ratio Components (in '000 EUR)	**31/12/2021**
Total SFTs	304,057
Total Derivatives	463,378
Total Other assets	53,356,336
Total On-balance	54,123,771
Total Off-balance	1,305,280
Deducted from T1 fully loaded	-69,504
Deducted from T1 transitional	-69,504
Temporary CB exposure exemption	-4,792,092
Total leverage exposure fully loaded	**50,567,455**
Total leverage exposure transitional	**50,567,455**
T1 capital fully loaded	2,085,437
T1 capital transitional	2,085,437
Leverage Ratio fully loaded	**4.12%**
Leverage Ratio transitional	**4.12%**
Leverage ratio (excluding the impact of temporary exemption of central bank reserves)	3.77%

Template **LRSum** in annex shows the reconciliation with the financial statements, while **LRCom** gives a detailed overview of the different components of the leverage ratio. A split up of the other on-balance sheet exposures can be found in annex **LRSpl**.

4.1. Description of the processes used to manage the risk of excessive leverage

The Leverage Ratio is a measure of the capital risk so that the risk of excessive leverage is covered by the institutions' capital risk management governance. Capital risk management involves the Board of Directors, advised by the Risk Committee, the Executive Committee, and the Risk Management and Finance departments.

The **Board of Directors** defines the strategic objectives of the bank, and the subsequent risk appetite, i.e. the aggregated level and types of risks the business lines and branches are willing to assume to achieve these objectives. This risk appetite is defined within Crelan Group's risk capacity, which is the maximum level of risk that Crelan Group can assume given its current level of resources before breaching regulatory constraints in terms of capital, including leverage, and liquidity requirements.

To increase efficiency and allow deeper focus in specific areas, the BoD has established specialized Board Committees. The **Risk Committee** is one of them, and, with regard to capital risk, is responsible for assisting the Board of Directors in defining the adequate level of capital that fits both the risk strategy and the risk appetite. This Committee provides assistance to the BoD in assessing the implementation of that strategy. Finally, this Committee monitors both the actual and forecasted solvency ratios, including the leverage ratio, which should be presented to it at each of its occurrence.

Crelan Group's **Executive Committee** develops, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape, short and long-term strategy, exposure to risks and the ability to manage risks effectively. Moreover, the Executive Committee is responsible for ensuring that the bank's RAF is respected. This framework includes limits based on the Leverage Ratio.

The **Risk Management department** is responsible for supporting the Executive Committee for defining, implementing, monitoring and regularly reviewing Crelan Group's RAF (e.g. by translating Crelan Group's risk appetite into operational indicators and limits). In particular, the department should determine the capital at risk, which is a measure that determines the necessary excess capital under the most stringent regulatory capital constraint to absorb a 1/20 years shock.

Crelan Group's capital adequacy objective is to respect minimal capital requirements (economic and regulatory, including leverage ratio) at any time, under current and stressed market conditions. To ensure the permanent fulfilment of these requirements over the coming years, Crelan Group has fully integrated capital requirements (including Leverage ratio) into its RAF against which the strategic plan is tested in order to ensure the compliance to the stricter regulation and internal risk appetite statements over the full horizon of the plan.

Finance department is also responsible for monitoring financial figures and to detect unexpected punctual loss of such significance that it would harm the capital of the bank and, as such Crelan Group's solvency ratios, including leverage ratio.

Additionally, the monthly **Capital and Funding Committee** is established which is a satellite working group of the Balance Sheet Management Committee covering the matters concerning the capital of the bank, follow-up of the solvency ratios (including the leverage ratio) of the bank, anticipation and management of regulatory requirements. The CFO, CRO and senior management of the Finance and Risk departments are members of the Committee.

4.2. Description of the factors that had an impact on the leverage ratio

Main drivers of the leverage ratio:

Table 15 - Main drivers of the leverage ratio split by entity

KPI	Dec-2021	Of which Crelan (including Europabank)	Of which ABB
Leverage Ratio	4.12%		
T1 capital (€ mln)	2,085	1,530	555
Total Leverage Ratio exposure (€ mln)	**50,558**	**20,169**	**30,389**

As a result of the temporary relief measure introduced by the supervisor in September 2020, Crelan currently excludes the Central bank exposures from the total leverage exposure. The temporary measure was introduced in order to reinforce the effectiveness of the monetary policy measures implemented in the exceptional context of the Covid-19 pandemic and to support credit institutions in financing the real economy. This temporary relief measure will expire as of April 2022. Without this Central Bank exemption Crelan Group's leverage ratio will decrease to a level of 3.77% on a consolidated level which is still above the level defined in the institution's RAF.

5. Credit Risk

Crelan Group defines credit risk as the negative consequences associated with the default [10] or deterioration in credit quality [11] of counterparties in lending operations.
The goal of credit risk management is to ensure that a (set of) credit event(s) would not significantly threaten the bank's solvency nor profitability. In order to reach this objective, credit risk exposures are m zaintained within strict boundaries. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of any banking organization. General qualitative information about credit risk of Crelan Group can be found in template **CRA** in annex.

5.1. Credit Risk Management and Governance

Crelan Group's main business is to provide mortgage, professional, agricultural and consumer loans, with mortgage loans representing the most important share (see Table 3). These products are offered in Belgium only.

The management of Crelan Group's retail credit risk is not yet formalised, at the moment there is one charter for ABB and one for Crelan. This will be part of the integration process and will be created in the following two years. A common charter will be created consisting of the organisation, RAF, product approval processes and modelling requirements that must be followed internally to mitigate Crelan Group's retail credit risk exposures. It will be completed by business and credit policies which provide the procedures for the day-to-day management of retail credit risks.

Given the good collateral coverage and the low probability of default of this loan portfolio, the risk profile of the total retail credit portfolio is low.

10 Counterparty not able to fulfil contractually agreed financial obligations.

11 Potential loss due to changes in the fair value of credit exposures as a result of rating transitions of counterparties.

5.1.1. Governance

The governance of Crelan Group's retail credit risk management can be summarised as follows:

- Crelan Group's BoD and Management Board assume the responsibilities described in section 2.1 of this report.
- Crelan Group's Lending Risk Committee its scope covers the lending activities (among others): approval of the credit policies (acquisition, loan management, collections), follow up of credit review, steering of credit scoring and validation of methodology, principles of loan loss provisioning, governance on IRB models including yearly review & quarterly back testing, validation & follow up of operational triggers, follow up of the risk indicators & amount of provisions (specific or statistic) in order to respect the defined risk appetite for the lending activities. Its mission is to support the management of the bank's lending activities within all applicable regulatory limits and within the bank's RAF defined by the BoD.
- Credit business lines are responsible for the acquisition, management and recovery of retail credits. They act as the first line of defence in the management of retail credit risk. They are responsible to propose (or amend) retail credit products and policies.
- As a control function (independent from the business lines), Crelan Group's Risk Management department assumes the responsibilities described in section 2.1. They also act as Credit Risk Controlling Unit (CRCU).
- Crelan Group's modelling team sets up and maintains the appropriate risk indicators and models described below.

5.1.2. Risk Policy, limit framework and reporting

The purpose of credit risk management is to correctly identify and measure the credit risk on the balance sheet, to monitor the credit risk and to take the necessary actions to keep the credit risk within the risk appetite so preventing one or more credit events to materially affecting the solvency or profitability of the bank.

The risks on Crelan Group's Belgium mortgage loans, personal loans, agricultural loans and professional credits are managed in four phases (acquisition, management, remedy and recovery).

Retail credits are accepted on the basis of a set of acceptance standards and policy rules. At the moment there is no common acceptance policy in place for Crelan Group under the new structure after the closing. More details can be found in section 5.3.2.

Template **CQ1** in annex shows the credit quality of forborne exposures, while **CQ3** gives a detailed overview of the credit quality of performing and non-performing exposures by past due days. Performing and non-performing exposures and related provisions can be found in annex **CQ4**. Finally, Templates **CQ7** and **CQ8** show the collateral obtained by taking possession and execution processes. The **CQ7** and **CQ8** templates are empty because Crelan Group does not obtain collateral that remains recognised in the balance sheet.

In compliance with regulatory expectations, Crelan Group performs stress testing for retail credit risk. The main goal is to assess the sensitivity of credit losses for the existing credit portfolio as well as to assess the solvency of the bank under stressed situations.

The evolution of credit risk is actively tracked as part of the reporting for the Lending Risk Committee which reviews the bank's risk on a regular basis. All these principles lead to a highly effective risk management system with control processes that prevent undesired manipulations. This system is strongly integrated into the operations of the "Retail Credits" division and is subject to continuous monitoring.

5.1.3. Portfolio

The Belgian loan portfolio consists mainly of mortgages (79%), professional (10%), agricultural loans (5%) and consumer loans (3%), with mortgage loans representing the most important share.

Given the good collateral coverage and the low probability of default, the risk profile of the total credit portfolio is low.

5.2. Credit risk exposures

For the vast majority of Belgian credit loans credit risk measurement is done by means of Internal Rating Based (IRB) models at Crelan and ABB. A residual proportion of loans are measured by the Standardised Approach. Europabank measures all its exposures with the Standardised approach as they target a specific client segment.

Crelan Group applies the Standardised approach for the investment portfolio and participations, as seen in section 5.4.

The credit risk exposures are risk-weighted for 20% according to the Standardised Approach and for 80% according to the IRB. When only looking at the Retail portfolio, 98% is risk-weighted following IRB.

For on-balance sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance sheet items, the net value is the gross carrying value (nominal amount) of the exposure less provisions.

In the application of Article 442(d), a geographical breakdown of the net value of the exposures by exposure class is provided in the **CQ4** templates in annex.

For the performing on-balance exposures in template **CQ4ONperC** 96.6% is with respect to Belgian counterparties. The most important countries are listed in this template and only 1% is reported in the category other countries.

For the performing off-balance exposures in template **CQ4OFFperC** 97.8% can be attributed to Belgian counterparties. The most important countries are listed in this template and only 0.3% is reported in the category other countries.

Information on the industry or counterparty type of exposures is provided in template **CQ5** in annex, in accordance with Article 442(e). The main counterparties are Agriculture, forestry, and fishing (16%), Wholesale and retail trade (14%) and Construction (14%).

Obviously, Crelan Group's retail portfolio is mainly concentrated towards households. These households are serviced by Crelan by means of mortgage loans, consumer loans and credit facilities to current accounts. Furthermore, Crelan Group has some exposure towards non-financial and financial corporations. These exposures correspond to our professional loan portfolio targeting farmers, self-employed clients, independents and micro enterprises. A diverse mix of industry sectors are served by Crelan.

Following Article 442(f), net exposures are broken down by residual maturity and exposure classes in template **CR1A** in annex.

Approximately 81% of Crelan Group's portfolio has a maturity of more than 5 years. Since Crelan Group's portfolio is mainly focused on mortgage loans, a high maturity is in line with expectations.

5.3. Credit quality

Article 442(g) and (h) require institutions to disclose a number of credit quality templates. Template **CRB** in annex, provides additional information on the credit quality of Crelan Group's assets. An overview of performing and non-performing exposures of Crelan Group at the end of 2021 is given in template **CR1** in annex. Templates **CR2**, **CR2a** and **CQ5** in annex provide information on this topic.

5.3.1. Definition of default

Crelan and ABB both have a definition of default on the retail loan portfolio that is fully in line with the European Regulation (EU) No 575/2013 and other regulations of the EBA.

Both banks consider a client/facility to be in default if and only if one or more of the following conditions is fulfilled:

- The client / facility is ">90 days past due": The client has more than 90 days payment arrears.
- The client / facility is in pre-litigation: The client has more than 90 days payment arrears and is subjected to a recovery plan.
- The client / facility is in litigation: The client is in pre-litigation for more than 9 months or the credit has been closed.

Specific for ABB:

- The client / facility is "unlikely to pay": The client will probably not be able to fully satisfy its credit payment without possible claim on guarantees. This rule will also be applied on Crelan exposures as from Q1 2022.

In case a client/facility is categorised under one of the first two categories in the above list, but is not doubtful, it is also referred to as "possible loss".

Specifically for ABB, an important change in 2020 was the introduction of the new EBA definition of default, which impacted the figures, as some credits that were in Stage 3 went into Stage 2 and vice versa. The main changes in this default concept, were the following:

- Counting of the number of days past due, which will only start when an absolute and relative materiality threshold has been breached (respectively € 100 and 1% of the balance amount). Flagging of defaults due to 90 days past due will therefore not happen at the same moment as before.
- The application of a 3-month probation period for all defaulted loans, which means the credits remain in default for 3 months after curing (whereas it was 6 months in the past).

When a client/facility becomes defaulted, it is considered to be impaired and thus a specific (collectively or individually assessed) provision has to be accounted for. At that moment an evaluation should always be made if this default has an impact on the estimated future cash flows of the financial asset, and if accordingly, an impairment loss should be recognised.

Furthermore, the default status is fully aligned with the 'non-performing' and 'impaired' statuses.

5.3.2. Acceptance policy

Both Crelan and ABB have a selective acceptance policy in place. As a result, the new production of both banks was characterised by a high quality and the entire credit portfolio showed a good credit quality despite the COVID-19 pandemic that continued in 2021.

In the following two years the alignment between the two existing Credit Policies at both banks will take place. The policies of Crelan will be leading in this exercise, but with a pragmatic interpretation. Full alignment for credit policies is not to be expected on short term but quicker alignment will be possible on certain principles (e.g. harmonization of loan decision taking capabilities). Alignment on some other principles will only be possible just before the migration.

This alignment exercise is done in close collaboration with the Risk department. For the risk appetite and operational limits a gradual harmonization of the principals that are applied at both banks will be performed.

5.3.3. Credit quality stages

5.3.3.1. Performing – Stage 1

Under IFRS 9, within the segment of performing loans, a distinction is made between loans without any significant increase in credit risk since origination on the one hand and loans with a significant increase in credit risk since origination on the other hand. Loans that are in the performing segment without any significant increase in credit risk are categorised as Stage 1. For Stage 1, the impairments are recognized for a 12-month expected credit loss. If none of the qualitative or quantitative triggers as described in Stage 2 and 3 are triggered, a loan is categorised in Stage 1.

5.3.3.2. Underperforming – Stage 2

Crelan and ABB consider the following conditions, both quantitative as qualitative, to attribute to a significant increase in credit risk (SICR) and therefore the loans are categorized as Stage 2 (underperforming):

Triggers for both banks:

- Days past due greater or equal to 30;
- Negative listed in CKP [12] database;
- Forbearance measures on credit.

12 Database at the NBB listing all credits a natural person has across all financial institutions and companies that grant credit facilities

Specific triggers for ABB:

- Current PD rating in bucket 9.
- Current PIT [13] PD is above a factor 3 times PD at origination and absolute difference is above 67 BPS.
- Difference in current PIT PD to PD at origination is greater or equal than 2%-points.

Specific triggers for Crelan:

- Current rating downgraded outside RAF after the origination (rating D or lower).
- Transfer to the watch-list by decision of the credit committee, based on negative qualitative signals identified during the reviews and monitoring process of the portfolio.

If a single one of the qualitative or quantitative triggers conditions is met, the loan will be classified as Stage 2.

5.3.3.3. Non-performing – Stage 3

Stage 3 contains all loans in default, see section 5.3.1 for its definition. At Crelan, the clients / facilities that are “unlikely to pay” are also classified as Stage 3. Resulting in a higher exposure under stage 3 than defaulted loans on 31/12/2021 as seen in template **CQ4** in annex. This will be changed by the end of Q1 2022. As from Q1 2022 reporting, the stage 3 loans will be equal to the defaulted loans for Crelan and ABB.

5.3.4. Specific and General credit risk adjustments

Based on the CRR definition, credit risk adjustments are the amount of specific and general loan loss provisions for credit risk that has been recognised in the financial statements in accordance with the applicable accounting framework. The Consolidated Financial Statements of Crelan Group are drawn up in compliance with the IFRS – including the International Accounting Standards (IASs) and interpretations as accepted within the European Union.

Under IFRS 9 the credit risk and the potential associated credit losses are captured through the expected credit losses principles and all credit risk adjustments are categorised as specific. There is no general loss allowance as defined under the Bank Accounts Directive (Council Directive 86/635/EEC).

All expected credit losses calculated through internally developed statistical models and other historical data are considered being collectively measured allowances.

At ABB, only loans having a ‘CX’ status as part of the credit-impaired loans portfolio are individually measured allowances. While at Crelan it concerns all the loans in default (litigated in contentieux and not litigated in pré-ctx).

Crelan Group calculates expected credit losses starting from the initial recognition of the loan on the balance sheet. For loan commitments, the date that Crelan Group becomes party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements.

Based on the following key inputs:

- Exposure at default
- Loss given default
- Probability of default

expected credit losses are calculated as a probability-weighted outcome probably based on 3 scenarios: a medium up-turn scenario, a base scenario and a medium down-turn scenario.

13 Point-in-time

Crelan Group uses a separate provision account, which reflects the impairment special depreciation, undergone by the underlying financial asset as a result of credit losses. The calculation of the expected losses also takes into account the impact of the time value and the related adjustment is recognised through the interest yield.

Negative differences between the calculated recoverable amounts and the carrying amount are recognised in the income statement as an impairment loss.

Each increase due to a downswing is recognised through the addition for impairment accounts in the income statement.

Each decrease due to objective indicators that show that the recoverable amount increases as a result of an improvement in the assessed recoverable cash flow is accounted for through the write-back of impairments in the income statement account. However, it shall never lead to an amortised cost, which would be higher than the amortised cost if no impairment depreciation had taken place.

The provisions are directly booked against the receivables if there is no possibility of recovery.

5.3.5. Definition of Past due

A client or facility is regarded past due if it is totally or partially past-due.

The definition of days past due reflects the number of days between the date of reporting and the oldest unpaid date.

5.3.6. Definition of Forbearance

Forborne exposures are debt contracts for which forbearance measures have been taken. Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties. Forbearance measures can be taken only if there is a mutual agreement between the borrower and the bank on these measures.

The debt contract enters forbearance when one of the following measures has been taken:

- A modified facility was or would have been classified as default in the absence of modification. A modification means a change of terms and conditions to an existing contract.
- The use of embedded forbearance clauses in a credit contract for a borrower who is or would be considered as default without the use of these clauses.

- A refinancing, meaning the granting of new credits, used simultaneously with or close in time for the partial or total payment of principle or interest in other credits for which the borrower is unable to comply with under the current terms.

In case the forborne facility is considered non-default, the PD assigned by the model will be applied. However, it is expected that the assigned PD is higher than the PD assigned to borrowers/files with similar credits but without forbearance measures, reflecting the higher risk on default of the forborne facility.

In case the forborne facility is considered or becomes default, the PD has to be assigned according to the rules set out in the Definition of Default.

In case a facility is classified as forborne, a "forbearance flag" has to be attached to this facility. A facility is categorised for its entire amount and without taking into account the existence of any collateral.

In accordance with Crelan Group's IFRS 9 provisioning policy a facility tagged as "forborne" will always be allocated to Stage 2. This only applies to non-defaulted exposures, since defaulted exposures are always classified as Stage 3.

If a facility has been assigned the defaulted status (before or at the time of forbearance measures are granted), the forborne facility must remain defaulted for at least one year. Only upon strict conditions the facility can be reclassified as non-defaulted.

A forborne facility with a non-defaulted status will be tagged as forborne for at least two years after the forbearance measure has been granted, or after the facility becomes non-defaulted. This forborne tag can only be removed when strict extra criteria have been met.

At the end of 2021, forborne loans accounted for 1.68% of our total loan portfolio. More details concerning the credit quality of the forborne exposures can be found in template **CQ1** in annex.

5.3.7. Credit Risk Mitigation (CRM)

Both ABB and Crelan define in their credit policies the need to establish collaterals to mitigate the credit risk.

5.3.7.1. Policies and processes for collateral valuation and management

At the moment of establishing a mortgage inscription or mandate, a valuation of the underlying real estate is done.

Two types of valuations are allowed. On the one hand, the valuation of the real estate is done by means of an independent external assessment. On the other hand, the valuation can be done by relying on official sales agreements. The latter method is only allowed for financing projects where the risk for an incorrect valuation is mitigated. Once the collateral is established, a yearly revaluation of the underlying real estate is done based on the statistics how Belgian's real estate market is evolving (so called indexation process).

This valuation technique is applied on residential as well as commercial real estate, yet the valuation of commercial real estate is done in a more prudent way given the higher volatility.

For counterparty credit risk only high-quality sovereign securities or cash are accepted as collateral, a daily valuation takes place combined with daily margin calls to and from counterparties.

5.3.7.2. Main types of collateral received

Based on the product there are different types of collaterals given.

Collateral for mortgage loans

The credit is typically secured by a mortgage (inscription or mandate) on immovable property (full ownership) in Belgium. The property should be normally marketable.

The mortgage that must be provided can be reused in the context of potential subsequent mortgage loans (and even used for other loans).

All collaterals complementing mortgage must be provided before the official registration of the loan (this also, therefore applies to additional movable guarantees).

Collateral for professional loans

These collaterals are the following:

- Tangible collaterals concern a property, movable or immovable, with an intrinsic value, in most of the cases a mortgage inscription or mandate
- Personal guarantees consist of claims against a person.
- Moral undertakings provide no means of enforcement to the bank and rely on the honesty of those that have issued them.

Collateral for agricultural loans

They are similar to the professional loans with mortgages and mandates on the immovable properties and pledges on the movable assets (equipments, cattles, ...).

Collateral for consumer loans

For consumer credits transfer of debt collection or act of relinquishment of wages and other income is used as collateral. For clients who also have a mortgage loan, the mortgage can also be considered as collateral.

Valuation policy for non-performing loans

Clients with loans in arrears are a limited part of the bank's portfolio but applying an indexation approach might not be appropriate for these loans as the assessment of potential losses more heavily rely on property values at this stage. Crelan Group therefore performs an external valuation at the moment of becoming doubtful for those properties for which no recent (i.e. ≤ 3 year) individual valuation is available. A yearly verification will be performed to ensure the last external valuation is less than 3 years old. In case of older external valuations, a (new) valuation will be performed.

5.3.7.3. CRM techniques

An overview of unsecured and secured exposures can be found in template **CR3** in annex.

5.3.8. Changes in the stock of credit risk adjustments

Since the start of IFRS 9 at the beginning of 2018, all credit risk adjustments are categorised as specific.

5.4. Standardised approach (SA)

5.4.1. Portfolios under the standardised approach

Crelan Group uses the standardised approach for determining the credit risk for a limited part of its portfolio. Europabank measures all its exposures with the Standardised approach as since they target a specific client segment (clients with a slightly higher risk profile). The standardised approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings.

More specifically, the standardised approach is used to determine the credit risk of:

- Derivatives and repos
- Investment portfolio
- Participations
- Other small portfolios

These exposures are discussed in detail in this next section.

5.4.2. Exposures under the standardised approach

Credit risk exposures presented before and after CCF/CRM can be found in template **CR4** in annex.

The credit conversion factor converts the notional amount of credit lines and other off-balance sheet items to an exposure at default.

Exposures under the standardised approach broken down by risk weight can be found in template **CR5** in annex.

5.4.2.1. Derivatives and repos

The exposure on derivatives and repos is calculated according to the standardised approach for counterparty credit risk (SA-CCR) and is therefore set out under the section 6 'Counterparty Credit Risk'.

5.4.2.2. Investment portfolio

The investment portfolio of Crelan Group serves as a liquidity buffer as well as a way to capture the interest rate and credit risk premium to generate profits. To make sure this remains within Crelan Group's risk appetite, risk management monitors its investment portfolio in terms of:

1) Adequacy of securities for calculation of the liquidity coverage ratio (see chapter 10 Liquidity Risk).
2) Adequacy of securities for calculation of the solvency ratio.

The BSRC received a delegation from the Executive Committee to manage Crelan Group's investment portfolio. Among others, it takes decisions regarding the issuer's eligibility and approves proposed investments and disinvestments. The BSRC works within the Risk Appetite context which has been approved by the BoD.

The expected credit losses of the investment portfolio under IFRS9 also falls within the scope of the BSRC. This committee is responsible for the model of expected credit losses of the investment portfolio including the management overlay. This committee discusses model design documents and model validation documents and takes model decisions (including staging logic).

The investment portfolio of Crelan Group mainly consists of high-quality sovereign and sovereign alike bonds (65%) and supra-national bonds (23%). It is further supplemented with covered bonds and corporate bonds.

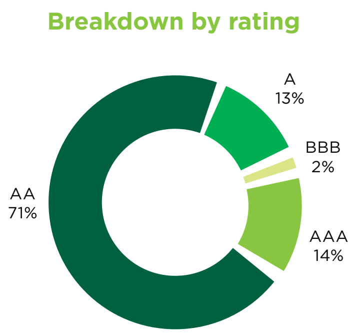
At the end of December 2021, the total investment portfolio amounted to €1.5 billion. The next table illustrates the different exposure classes in Crelan Group's investment portfolio.

Figure 19 - Different exposure classes of the investment portfolio

Exposure class	% of portfolio
Government bonds	64.4%
Multilateral Development Banks	11.9%
International Organisations	11.0%
Public Sector Entities	0.3%
Covered bonds	3.9%
Financial institutions	0.3%
Corporates	7.5%
Real Estate	0.7%
Funds	0.1%

Moreover, the credit ratings and market price changes of Crelan Group's positions are being carefully monitored to examine the vulnerability of the credit portfolio to a number of adverse developments. There is no single position with a rating below investment grade.

Figure 20 - Investment portfolio - Breakdown by rating



Geographically, the investment portfolio mainly consists of securities issued by members of the European Union (94.9%).

Table 16 - Geographical breakdown of the investment portfolio

Geographical break-down	% of portfolio
European Union	94.9%
Belgium	44.3%
Supranational	22.8%
France	12.7%
Austria	4.6%
Finland	4.1%
Netherlands	3.5%
Spain	1.9%
Germany	0.8%
Ireland	0.2%
Other	5.1%
United States	2.8%
Norway	0.7%
Canada	0.7%
Australia	0.6%
United Kingdom	0.3%

5.4.2.3. Participations

Crelan Group has a limited participations portfolio (€25 million at the end of December 2021). These shares represent participating interests in non-consolidated subsidiaries (Beran NV), financial intermediary entities (e.g. Visa Belgium), private equity and funds.

5.4.2.4. Other small portfolios

Some other small portfolios are treated under the Standardised Approach. It concerns among others tangible assets and other receivables.

A very small part of the retail credits that because of their size do not longer qualify as "Retail" is allocated to the exposure class "Corporate" and treated following the Standardised Approach. Small retail portfolios such as tax credits, guarantees and negative current accounts are also treated under the Standardised Approach.

Deferred tax assets that rely on future profitability and arise from temporary differences below threshold is also part of the Standardised Approach.

5.5. Internal ratings based approach (IRB)

5.5.1. General

Within Crelan Group [14] both Crelan and ABB received the approval from the NBB to apply the (F)IRB approach to their Belgian retail credit activity. This is the most sophisticated approach available under the regulatory framework for credit risk and allows a bank to make use of internal credit rating models and subsequent internal estimates of risk parameters. These methods and parameters represent key components of the bank's internal risk management and process supporting the credit approval process, the economic capital, provisions and expected loss calculation and the internal monitoring and reporting of credit risk. ABB received NBB's permission in 2008 while Crelan in December 2011. For ABB the approval to use the IRB approach was reconfirmed by the ECB after the Targeted Review of Internal Models (TRIM) in 2017. The IRB landscape of Crelan and ABB will be harmonized in the next few years.

Qualitative information related to IRB approach applied at Crelan Group can be found in template **CRE** in annex.

14 Crelan Group receives a Permanent Partial Use (PPU) of the IRB approach. Indeed, exposures to corporates, central governments, central banks and institutions are excluded from the scope. In the same way, some specific retail products are also in PPU approach. Those products are the Biznes Fisc and the Budget +. They are capitalised in the standardised approach. For a view on the materiality of the scope of application of the IRB approach see template **CR6A**.

5.5.2. Internal credit rating models

To apply the IRB approach, both Crelan and ABB have developed internal predictive models in compliance with Basel's III Internal Rating Based Approach. The relevant parameters include the:

- Probability of Default (PD) of retail credits;
- Loss Given Default (LGD);
- Exposure At Default (EAD), including Credit Conversion Factor (CCF).

The input data of these models consist of product characteristics, socio-demographic data of applicants, financial data and external data that must meet certain quality criteria. Given the vast amount of available information it was possible by means of statistical techniques to develop rating models that are highly powerful in predicting future default behaviour.

PD models assign a score to each loan, based on product characteristics and borrower criteria. Based on these scores, PD classes are formed and a long-run PD is attached to each class. This long-run PD is the historic average default rate, corrected for being 'forward looking'. This way at Crelan, 11 PD classes are created, rating A+ being the class with the lowest risk and rating E with the highest risk. Rating classes F and Z contain defaulted loans. For ABB 10 PD classes are created, 1 being the class with the lowest risk and 9 with the highest risk. The 10th class contains defaulted loans.

The LGD models estimate the size of the loss for loans that default. A workout LGD approach is taken for that purpose. Levels of losses are discriminated thanks to several characteristics such as e.g. the value of the guarantee that backs the loan. LGD is constructed based on two separate elements: the probability of cure and the loss given recovery. The combination of both elements results in a final LGD grade, to which a correction is done to take into account downturn conditions.

The EAD is the amount due by the borrower at the time of default. This amount includes the outstanding capital at the time of default, past due capital repayments and interests and fines. For unused credit lines and offers in the pipeline, CCF models have been developed based on historical data. These models estimate the proportion of the off-balance sheet that will be drawn by the customer at time of default.

As part of the model development, there is a calibration process, linking the rating and the PD/LGD. This calibration is revised and adjusted during the model review process.

5.5.3. Expected losses (EL)

This are the expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (percentage) by the Loss Given Default (percentage) and the Exposure at Default (amount). It is considered as an expectation due the Probability of Default factor.

However, for the defaulted portfolio, the best estimate expected loss is equal to the impairments/provisions of this defaulted portfolio.

PD, LGD, EAD and EL form the building blocks for calculating the capital requirements for credit risk under IRB approach.

5.5.4. Impairments

As of 2018, impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) for defaulted loans and on a 12-month or lifetime ECL basis for non-defaulted exposures, depending on whether there has been a credit risk deterioration and a corresponding shift from Stage 1 to Stage 2. Specific IFRS 9 models are used for this purpose which are in fact extension of the existing rating models (see section 5.3.3 for more information on the impairment stages).

5.5.5. Control mechanisms for rating systems

The 3 lines of defence principle is applied on the rating system. The Risk Analytics team is responsible for the development, maintenance and performance monitoring of the models in the IRB approach. Next to that, the Validation team acts as second line of defence, controlling and validating in accordance with internal guidelines the modelling activities performed by the Risk Analytics team. Finally, Crelan Group's internal audit is the third line of defence, performing internal audit on models following the audit process in place.

5.5.5.1. Risk Analytics team

The Risk Analytics team performs the modelling work related to the IRB rating system (e.g. model development). The team also controls its quality by performing a set of qualitative and quantitative controls on its performance. They can be grouped into 2 broad categories: model monitoring and stress testing.

A quantitative model review is performed by the modelling team every year. This review focuses on the quality of the estimates and compares them to the observations. In case of sub-optimal performance, actions are taken to remediate the identified issue. This exercise and its outcomes are independently validated (see 5.5.5.2 below) and should be endorsed by both the CRO and the LRC.

Stress testing covers both stressing of the model and comparison of model outputs to stress losses. The outputs of the model might be examined under conditions of stress, where model inputs and model assumptions might be stressed. This process can reveal model limitations or highlight capital constraints that might only become apparent under stress. Through a complementary programme of stress testing, the bank may be able to quantify the likely losses that the firm would confront under a range of stress events. Comparison of stress losses against model-based capital estimates may provide a degree of comfort of the absolute level of capital.

5.5.5.2. Validation

The model validation covers all Crelan Group's models. Peripheral modelling activities such as risk aggregations, time horizon scaling, model monitoring, model's stress testing and model's calibration also fall into the scope of the model validation. They ensure an adequate and proper level of independent control on the IRB rating systems.

The guidelines for model validation ensure compliance with regulatory requirements. Model validations take place in the case of a new model, model redevelopment or model significant changes.

A model monitoring validation also took place with different frequencies, depending on the model. For Pillar 1 models, the model monitoring is validated on a yearly basis.

The internal validation function is part of the Enterprise Risk Management team directly reporting to the CRO of Crelan Group. The model development of the IRB models is done by the Risk Analytics team which is also reporting to the CRO. Model development and internal validation have then two different reporting lines to the CRO. This is crucial in order to safeguard independence of the internal validation function.

The Validation Manager is responsible for the independent validation of models, but also peripheral modelling activities. The Validation Manager also sets up the validation process and criteria for models. The Validation Manager can be supported in the analysis of the different models by external specialists.

5.5.5.3. Audit

Internal Audit is an independent function that acts as third line of defence. The team performs audits on the IRB rating framework following the audit process and reviewing the compliance of the rating system with applicable requirements. Audit adds then an additional level of controls on the rating systems, as well as on the stakeholders involved (i.e. Risk Analytics team and Validation team). Internal Audit performs a follow-up of recommendations issued by supervisors.

5.5.6. Exposures using the IRB approach

In template **CR6AIRB** in annex, a more detailed view is given of how Crelan Group's credit portfolio is distributed over the PD ranges per exposure classes including information required for the calculation of risk-weights. In Crelan Group's internal rating system the rating class is the main driver to allocate a credit exposure in an EL grade (which combines PD and LGD parameter) as the LGD outcomes show less variation compared to the PD outcomes.

For retail exposures, the option included in Article 452(f) of the CRR allows us to provide a breakdown by a minimum relevant number of EL bands instead of the PD-scale proposed by the guidelines. The PD-scale presented in the template corresponds to the one used for regulatory calculations.

The exposure class 'retail' is split into "Retail secured by real estate property" and "Other Retail", identifying separately each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond.

In templates **CR7** and **CR7A** in annex, the effect of the synthetic SRT on Crelan Group's RWA is shown. In Q4 2020 ABB issued a synthetic securitisation with Significant Risk Transfer as explained in chapter 8 to support the growth of the loan portfolio while optimising the risk-return balance. After securitisation retail RWA decreased with €158 million.

According to article 452(j) of the CRR, institutions using own LGD estimates for the calculation of risk-weighted exposure amounts, should disclose the exposure-weighted average LGD and PD in percentage for each relevant geographical location of credit exposures for all exposure classes specified in Article 147 and for each category of exposure to which the different correlations in Article 154 (1) to (4) correspond. As 99.1% of all IRB exposures are Belgian, Crelan Group decided not to disclose this data because of its immateriality.

Template **CR8** explains the main drivers of the evolution of IRB RWAs compared to the previous period (situation on 30/09/2021).

5.5.7. Estimates against actual outcome

Each year, all internal models are profoundly reviewed and if the performance of the models is no longer in line with quality levels model adjustments/ redevelopments are done to ensure an appropriate quality level for the models used for credit risk management.

The results of the back-testing of PD per exposure class can be found in templates **CR9AIRB** in annex.

5.5.8. Regulatory floors

Crelan group applies the regulatory 10% LGD floor for its mortgage loans.

5.5.9. Belgian specific regulations

Based on Art 458 of the CRR, the Belgian regulator has requested, for all Belgian banks using IRB models, an add-on of 5 % calculated on the IRB exposures for mortgages covering residential real estate in Belgium.

An additional Belgian add-on for retail mortgages under IRB, entered into force in 2018. This 33% add-on is calculated by applying a factor 1.33 on the of IRB RWA for mortgages covering residential real estate in Belgium.

For reasons of comparability between countries, these additional capital requirements are represented in "Other risk amounts".

6. Counterparty credit risk

6.1. General

Crelan Group incurs counterparty credit risk to high quality counterparties through its Treasury and ALM activities.

Crelan Group engages in different types of derivates in order to hedge its balance sheet risks and incurs counterparty credit risk on these derivatives. Next to derivatives, Crelan Group is also exposed to counterparty credit risk through (reverse) repurchase agreements, which it regularly trades in context of its liquidity management.

Risk weighted assets on derivatives are calculated according to Chapter 6 of the CRR2, using the Standardised Approach for Counterparty Credit Risk (SA-CCR) as seen in template **CCR1** in annex. SFTs are risk-weighted following the Chapter 4 of the CRR2 using the Financial Collateral Comprehensive method. A breakdown by exposure class and by risk weight using the Standardised Approach is provided in template **CCR3** in annex. Template **CCR4** is not reported as Crelan Group only applies the Standardised approach to calculate counterparty credit risk (SA-CCR).

Qualitative disclosure template related to CCR, **CCRA** can be found in annex.

6.2. Governance

The governance of Crelan Group's counterparty credit risk management can be summarised as follows:

Crelan Group's Board of Directors and Crelan Group's Executive Committee assume the responsibilities described in section 2.1 of this report.

Crelan Group's BSRC receives a delegation from Crelan Group's Executive Committee to manage Crelan Group's counterparty credit risk. Among others, it is the responsibility of the BSRC to monitor the adherence to the RAF for counterparty credit risks that has been approved by the BoD. Besides that, it also monitors compliance to the operational limit framework and takes decisions regarding new or existing counterparties. Currently, ABB and Crelan both have a separate limit framework to monitor counterparty credit risk. However, Crelan Group will develop a joint counterparty credit risk framework in the course of 2022.

Crelan Group's Balance Sheet Management team, consisting of Treasury, ALM and Capital Market Execution, is the first line of responsibility for the management of counterparty credit risks.

As a monitoring & control function (independent from the business lines), **Crelan Group's Risk Management** department assists the bank's BoD, Executive Committee and BSRC in managing the bank's counterparty credit risk.

6.3. Risk policy, limit framework and reporting

6.3.1. Strategies and processes

For the derivatives and repo activities, it is Crelan Group's strategy to minimise credit risk by collateralising as much as possible to reduce the loss given default. At the same time, only well rated counterparties are used in order to reduce the probability of default. The increasing use of a qualifying central counterparty (QCPP) fits in this strategy as well.

Exposures to CCPs can be found in template **CCR8** in annex.

6.3.2. Limit framework

The basis of the limit framework is the RAF set by the Board of Directors. Until December 2021, ABB and Crelan were two separate banks and therefore also had two separate risk appetite frameworks. In the 2022, Crelan Group has set up a first version of the joint RAF including the most important financial indicators on a strategic level and the appropriate limits. In the course of 2022, Crelan Group will further develop its RAF and will include relevant limits for counterparty credit risk.

Based on the limits of the RAF, Crelan Group will develop a joint operational limit framework, which will be regularly followed up by the BSRC.

In the meanwhile, both banks will keep in place their current limit framework which will be monitored by the BSRC. The BSRC also approves individual counterparties and sets limits per counterparty.

6.3.3. Reporting and measurement systems

Crelan Group maintains two complementary reporting and measurement systems: regulatory and internal management.

Crelan Group measures its minimum regulatory requirements for counterparty credit risk according to the Standardised Approach for Counterparty Credit Risk (SA-CCR) on a quarterly basis. Besides that, Crelan Group is also subject to the large exposures limit framework described in part IV of the CRR2 regulation. On a quarterly basis, a large exposure report is submitted to Crelan Group's regulator.

Besides the regulatory measures, Crelan and ABB measure its counterparty credit risk exposures using an internal method. Currently, both banks each have a separate internal approach. However, Crelan Group will develop a joint counterparty credit risk exposure methodology in the course of 2022.

6.4. Policies for hedging and risk mitigation

Crelan Group has implemented collateral agreements with derivative and repo counterparties which allows to reduce the counterparty credit risk on these counterparties. Besides that, ABB can apply netting under its derivatives contracts which means it is allowed to offset opposite derivative exposures. This netting contributes to the mitigation of counterparty credit risk. Additional qualitative information related to CRM techniques applied by Crelan Group can be found in template CRC in annex.

6.4.1. Netting

In the contractual documentation with all of its counterparties, ABB has ensured it is allowed to reduce positions with positive market value by deducting those with negative value and only exchange the net amount. The netting that ABB applies, is recognised from a regulatory perspective and is considered as a risk mitigant on all counterparties. It should be noted that the scope of netting as risk mitigant is broader than the scope of 'accounting offsetting' under IAS 32 – Financial Instruments – Presentation, which requires more conditions to be fulfilled.

Crelan does not apply netting under its derivative contracts.

6.4.2. Collateral

Policies and processes for collateral valuation and management

In order to mitigate the counterparty credit risk exposure on the derivatives and repo activity, Crelan Group has foreseen in the exchange of collateral in the contracts with its counterparties. It is Crelan Group's policy to implement collateral agreements with the following properties:

- Cash collateral or high-quality government/ covered bonds (with application of haircuts). This ensures Crelan Group's ability to quickly realise the collateral with a minimum of loss upon counterparty's default.

- Daily measurement of exposure and exchange of collateral.
- No threshold and a minimum transfer amount of maximum €1 million.
- Re-use of collateral is allowed, which greatly reduces the burden on Crelan Group's liquidity.

The back offices of both Crelan and ABB manage the collateral valuation and margin call process using front-to-back IT applications. It issues margin calls, reviews margin calls received by counterparties and involves middle office and risk management in case of more complex valuation discussions.

Main types of collateral

Crelan Group receives mostly cash collateral under derivative contracts, avoiding any concentration issues on that side. For repo/reverse repo transactions the bond leg of the transactions is restricted to high quality government or covered bonds. This strict policy in terms of eligible collateral may result in some concentration risk but Crelan Group believes this is acceptable given the quality of the issuers.

Composition of collateral

Template **CCR5** in annex presents the composition of collateral for counterparty credit risk exposures.

Impact given a credit rating downgrade

In the unlikely event that the bank were to be downgraded with 5 notches, ABB would need to post variation margin under the (currently uncollateralized) derivative positions with its subsidiary ABE SCF. This downgrade trigger is set by the rating agencies and ensures that the covered bonds issued by ABE SCF would not lose their triple A rating and/or ECB-eligibility when the bank is downgraded.

Crelan Group's collateral contracts with external counterparties do not not foresee any additional posting of collateral in case its credit rating is downgraded.

6.5. Exposures to counterparty credit risk

6.5.1. Exposure at default

In this section, we give an overview of the exposure at default related to derivative and (reverse) repo transactions. The regulatory definition is used, that considers the nature of the instruments and simulates the exposure amount in case of counterparty default. This exposure is used to calculate the risk weighted assets and the capital requirements.

Repo & reverse repo

The regulatory exposure of the repo activity is calculated in the following manner:

- All transactions are grouped per netting set. The collateral received under the netting set is deducted from the exposure.
- Supervisory volatility adjustments are applied to non-cash securities received/posted under the repo transaction. These haircuts reflect the possible negative evolution of the securities exchanged.

On 31 December 2021, the regulatory exposure of the repo activity amounted to €254 million:

- Of which €163 million is caused by the difference between exposure and collateral received.
- Of which €91 million is the result of the supervisory volatility adjustment applied to securities posted and received.

Derivatives

Crelan Group measures its minimum regulatory requirements for counterparty credit risk according to the Standardised Approach for Counterparty Credit Risk (SA-CCR). The exposure under SA-CCR consists of two components: the replacement cost and the potential future exposure.

- The replacement cost represents the loss that the bank would face if a counterparty were to default at the present time. As ABB can apply netting under its derivative contracts, it is legally allowed to offset positive and negative derivative market values in the calculation of the replacement cost. Crelan does not apply netting in its derivative contracts.
- The potential future exposure is a risk factor and reflects the possible negative evolution of the transaction value in case of counterparty default
- The current exposure and the potential future exposure are summed and are multiplied by the regulatory 1.4 alpha factor. The outcome of this calculation gives the exposure at default per counterparty.

The aggregated results as of 31 December 2021 are as follows:

- The replacement cost amounts to €376 million. The largest part of this amount (€350 million) stems from the high collateral requirements of the central counterparty LCH Clearnet.
- The total potential future exposure amounts to €174 million.
- After applying the regulatory alpha factor of 1.4, we arrive at a total exposure at default of €770 million. This reflects the exposure under stressed market conditions and assuming the simultaneous default by all counterparties.

As Crelan cannot apply netting under its derivative contracts, the exposure resulting from collateral exchange is not included in its counterparty credit risk calculation. Instead, Crelan's derivative collateral exposures are presented in the table below.

Table 17 - Derivatives collateral Crelan (including Europabank)

In mln €	Variation Margin	Initial Margin
Bilateral	**30.8**	**0**
Centrally cleared	**474.3**	**156.3**

Crelan Group has very high standards regarding the quality of its counterparties, none of the derivatives or repos is past due or impaired.

6.5.2. Concentration risk

Crelan Group follows the regulatory requirements regarding the limitation of large exposures, where exposure to a group of affiliated counterparties may not exceed 25% of the eligible capital. Due to diversification of counterparties, the concentration risk at Crelan Group is very low: there are no exposures on connected client groups that exceed 10% of eligible capital.

6.5.3. Credit quality step per product

In the table below, the total exposure after collateral is split product type and per credit quality step. The credit quality step is a function of the rating assigned to the counterparty. We show transactions with the QCCP separately as they are treated differently in capital regulations as well.

Table 18 - Credit quality step Counterparty Credit Risk

Product	Quality step	Portion of notional amount 31/12/2021
Derivatives	1st step	0.02%
	2nd step	16.16%
	3th step	0.10%
	QCCP	83.72%
SFTs	1st step	0%
	2nd step	100%
	QCCP	0%

6.5.4. Wrong way risk exposures

Wrong way risk arises when the exposure on a counterparty is positively correlated with the likelihood of default of that same counterparty, i.e. the exposure on a counterparty will increase when the credit quality of the counterparty decreases.

Two types of wrong way risk can be distinguished:

(i) Specific wrong way risk

(ii) General wrong way risk

Specific wrong way risk can arise from the structure of the transaction, for example when the exposure on a counterparty is collateralised by securities issued by the same counterparty. Crelan Group occasionally incurs a small amount of wrong way risk in its repo activity. From time to time, repos are traded for which the exposure is collateralized by securities issued by the same counterparty. This wrong way risk is limited as the securities received as collateral are covered bonds. These bonds offer an additional security as they are covered by residential mortgages. Due to the additional security from the covered bonds, the CRR (Article 207) does not consider this as wrong way risk. However, to be conservative, we do apply an additional risk add-on in the internal risk calculation. Crelan Group incurs no specific wrong way risk on its derivative portfolio as only cash collateral is exchanged.

General wrong way risk arises when general market factors influence the exposure and creditworthiness of counterparties. Crelan Group monitors general wrong way risk by taking into account a risk factor in its derivative exposure calculation. This risk factor reflects the potential negative evolution of the transaction under stressed market circumstances. These exposure amounts and limits are governed by the BSRC.

6.5.5. Credit valuation adjustments

Credit valuation adjustment (CVA) is the risk of loss caused by changes in the credit spread of a counterparty of derivative transactions due to changes in its credit quality.

Since the implementation of Basel III in 2014, the capital requirement for this risk is integrated in the risk volumes (see template **CCR2** in annex).

Most derivatives are cleared trough the qualifying central counterparty, LCH Clearnet. As limited credit risk in incurred on the clearing house, cleared positions are excluded from the CVA RWA calculation. Asides cleared transactions, Crelan Group holds a

limited amount of bilateral OTC derivatives. These bilateral derivatives are only executed with high-quality counterparties with a minimum rating of A- at inception.

The high degree of clearing and the high credit quality of bilateral counterparties, results in a low CVA risk. On the 31 December 2021, the total CVA RWA amounted to €29 million. Crelan Group measures its own funds requirements for CVA risk according to the Standardised method (article 384 of the CRR).

6.5.6. Default fund contribution (DFC)

The 'risk exposure amounts for contributions to the default fund of a CCP' refers to the own funds requirements for the exposures arising from its trade exposures to a central counterparty and its default fund contribution. The calculation is based on Article 308 of the CCR.

As Crelan Group is not a direct clearing member for derivatives and executes it trades through clearing brokers HSBC, Credit Suisse and ABN Amro, it does not need to contribute to the default fund.

On the other hand, ABB acts as a direct clearing member of LCH for repos and therefore pays a default fund contribution for repos. Although ABB had no repos outstanding with LCH at the end of 2021, it is still required to post a minimum default contribution amount. At the end of December 2021, the default fund contribution amounted to €2.5 million which resulted in a risk weighted amount of €50,000.

7. Use of ratings from external credit assessment institutions (ECAI)

Retail credit risk weights are determined based on Articles 123 to 127 of the CRR.

Risk weights for non-retail credit risk exposures (counterparty credit risk and investment portfolio) are determined based on external ratings. Exposure classes involved are: "Central governments or central banks", "Regional governments or local authorities", "Public sector entities" "Multilateral Development Banks", "International organisations", "Institutions" and "Covered bonds".

In order to apply the Standardised Approach, Crelan Group uses the external ratings assigned by the following rating agencies: Fitch and Standard & Poor's. The lower of the available ratings is used to determine the risk weight. In terms of use of the ECAIs, Crelan Group follows the standard classifications published by the EBA.

The ratings of all counterparties and listed securities are systematically monitored by Risk Management as part of the tracking of credit risk.

In terms of eligibility for investments, one of the criteria is that the rating should be minimum BBB. The higher the rating, the higher the amount that can be invested. Besides the investment policy, Crelan Group uses ratings from ECAIs as an eligibility criterion for derivatives or repo transactions, where a minimum of A- is required. It is important to note that Crelan Group does not rely solely on ECAIs: it also follows the market news and market indicators such as CDS spreads to follow up on its investments and counterparties, see template **CRD** in annex.

There are also "passive" counterparties which have a rating of at least BBB+. With these counterparties, there is still a very limited amount of open positions from the past, but no new trades are allowed unless new trades actively reduce exposure. These counterparties are monitored closely.

8. Securitisation risk

8.1. Crelan Group as investor

Crelan Group has no investments in external securitisation positions in 2021.

8.2. Crelan Group as originator

Within Crelan Group, Crelan (including Europabank) does not act as an originator while ABB uses ABE SCF as an entity to attract structural long-term funding. Additionally, as from Q4 2020 ABB uses CASPR S.à.r.l, a Luxemburg SPV, to generate some RWA relief over its mortgage loan portfolio. All two entities are fully integrated in the ABB consolidation scope hence in the Crelan Group scope as well (see section 1.8.2).

Even if governance and risk policies for these activities are integrated in the overall ABB risk framework, ABE SCF, being a credit institution, has its own risk charter, CRO, committees and risk reporting.

In December 2017, ABB performed a restructuring of its securitisation entities in order to cope with a change in legislation in Europe which does not allow ABE SCF to hold more than 10% RMBS issued by SPV Royal Street as collateral for the issued covered bonds. Since this date ABE SCF buys mortgage loans to be used as a collateral for the covered bonds. As an alternative to buying loans from ABB, ABE SCF can also grant a secured loan to ABB (backed by a pool of mortgages on ABB's balance sheet) and use that asset as collateral to issue covered bonds.

8.2.1. Securitisation

Crelan Group sub entity ABB acts as the originator of a series of CASPR S.à.r.l, a Luxemburg law governed Special Purpose Vehicle. In template **SECA** in annex the qualitative disclosure requirements related to Crelan Group's securitisation exposures can be found.

Royal Street 1

Since June 2021 Royal Street 1 is fully unwounded. The entity still exists and is incorporated in the consolidated Crelan Group scope.

CASPR S.à.r.l

In December 2020, ABB originated a synthetic securitisation transaction. This was done to support the growth of the loan portfolio while maintaining the envisaged solvency levels (as set in the RAF of the bank). Within the Synthetic SRT securitisation the mezzanine tranches are sold (resulting in a significant risk transfer) while the first loss and the senior tranche are retained.

The first loss tranche is fully deducted from CET1 capital. As a result, only the retained senior tranche needs to be risk weighted. The RWA of the retained senior tranche amounts to € 78 million at the end of 2021. This senior tranche RWA is measured according to SEC-IRBA method as all underlying credits are IRB exposures. Adjustments are made for maturity mismatches between the credit protection and the underlying exposures, and the Senior tranche risk weight is floored at the weighted-average risk weight that would be applicable to the underlying exposures had they not been securitised. The final risk weight of the senior tranche equals 15% which corresponds with the risk weight floor applicable under the securitisation framework.

See templates **SEC1**, **SEC3** and **SEC5** in annex for more quantitative information.

8.2.2. Covered Bonds

ABB created ABE SCF for the purpose of issuing covered bonds. Its principal business activity is to issue covered bonds to refinance residential mortgage loans.

ABE SCF has bought a portfolio of Belgian residential mortgage loans directly from ABB (the “Spot Sale”). Given that the balance of a portfolio of residential mortgage loans typically decreases every month because of scheduled redemptions and prepayments, ABE SCF will need to buy on a monthly basis additional residential mortgage loans (the “Forward Sales”) in order to keep the balance of the Belgian residential mortgage loans at the required amount.

The required amount is the one requested in order to maintain at minima the 105% regulatory level as defined in the French law + 2% as buffer.

In order for ABE SCF to mitigate the prepayment and interest rate risk arising from the Belgian mortgage pool now directly owned, several Asset Swaps were set up between ABB and ABE the asset side of SCF. There are as many Asset Swaps as there are Covered Bonds Series and Subordinated OC Loans outstanding against the Belgian residential mortgage loans.

Covered bonds are sold on the market to investors or subscribed by ABB (retained on ABB’s balance).

As of December 2021, the stock of covered bonds amounted to €8,750,000 thousand of which €5,500,000 thousand are placed in the market and €3,250,000 thousand are retained by ABB and hence eliminated in the consolidated balance sheet.

The strong underlying quality of ABB’s retail mortgage portfolio in Belgium is the ideal collateral for a covered bond program. This program enables the bank to manage its liquidity risk. It provides ABB with diversification in funding sources and minimises funding concentrations in time buckets. The covered bond program gives ABB access to the covered bond market, allowing ABB to reduce the cost of long-term institutional funding. This program offers the bank access to funding markets that remain open in times of market stress.

Disclosures ABE SCF covered bond issuance can be found on the ABB’s website.

These disclosures detail the structure of the securitisation and covered bonds issuance, the risk factors, ABB’s involvement in them and its governance. A quarterly investor report completes the information in the above disclosure, by providing the markets with relevant quantitative information.

All covered bonds are rated AAA by Moody’s.

9. Market risk

For market risk, Crelan Group differentiates between the market risk that is related to the 'trading book' (regulatory classification), and interest rate risk related to the 'banking book'. The trading book includes all financial instruments that are used in the context of specific trading activities. Crelan Group does not carry out any trading activities for its own account. The financial instruments falling under the 'trading book', mainly concern the transactions for retail clients who want to purchase and sell Eurobonds or EMTNs on the primary or secondary market. The banking book includes all other financial instruments that do not belong to the trading book. These mainly concern the bank's retail business.

9.1. Interest Rate Risk Banking Book (IRRBB)

Interest rate risk in the banking book is defined as the risk to both the net interest income and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments. It includes gap risk, basis risk and option risk.

The banking book of Crelan Group (including its branches) mainly consists of retail loans, loans towards the agriculture and professional sector and investments on the asset side of the balance sheet and retail deposits and non-retail funding (including covered bonds and EMTNs) on the liability side of the balance sheet. Generally speaking, instruments on the asset side have a longer duration than those on the liability side. This gives rise to gap risk.

Mortgage loans represent the largest share of loans on the asset side. They can have fixed or variable interest rates. In Belgium, rate resets of variable rate mortgages are linked to the evolution of OLO bonds. The resulting new interest rate of the mortgage is capped by law to protect the customer. These features of variable rate mortgages give rise to both basis risk and (automatic) option risk.

Other important types of option risk are prepayments of retail loans and the pricing of non-maturing deposits (regulated savings accounts benefit from a rate floored at 11 bps in Belgium).

9.1.1. IRR Management and Governance

Interest rate risk in the banking book will be covered in Crelan Group's RAF [15] created in the first trimester of 2022:

- The sensitivity of net interest income is used as one of the elements to define strategic risk appetite statements on capital and earnings.
- A dedicated functional risk appetite statement sets a limit on the net interest income sensitivity.
- Operational limits are set on the different subtypes of IRRBB.

All (internal and regulatory) measures related to interest rate in the banking book are compared with their limits in the IRRBB dashboard. This dashboard therefore provides a comprehensive overview of all subcomponents of IRRBB, both from a value and an earnings perspective. It is discussed at the BSRC on a monthly basis.

15 The RAF of Crelan Group is currently being harmonized in the aftermath of the takeover of ABB.

The following measures are included:

- Internal EVE sensitivity to parallel shocks and to a steepening and a flattening shock.
- Internal NII sensitivity to parallel shocks and to a steepening and a flattening shock.
- Dedicated measures for cap risk, OLO basis risk and Euribor basis risk.
- Regulatory EVE and NII sensitivities.

Crelan Group applies the following hedging policies to mitigate the interest rate risk in its banking book:

- To keep the overall interest rate risk position (of assets + liabilities) within the internal and regulatory limits, the bank is actively managing a portfolio of interest rate swaps within its banking book activities. Production of retail assets (including pipeline) and liabilities is hedged to keep Crelan Group's exposure levels within the desired range. The non-linear effect of prepayments for different rate shocks is considered in this hedging process. The swaps used to hedge the overall position are included in a macro hedge accounting model.
- Cap risk embedded in variable rate mortgage loans is hedged via an active purchasing policy of market caps and swaptions. These derivatives are also included in a macro hedge accounting model.
- OLO basis risk embedded in variable rate mortgage loans is hedged via the maintenance of an OLO portfolio: declining OLO spreads generating lower revenues on mortgage loans are then compensated by capital gains on OLOs.

IRRBB measures are calculated based on cash flows derived from contractual features of interest rate sensitive instruments. For a number of instruments, behavioural models are needed to translate client behaviour into cash flows. These behavioural models will be aligned in 2022 as the branches are still using different models for now. More details related to this topic can be found in template **IRRBBA** and **IRRBB1** in annex.

9.1.2. Exposure to IRR in the banking book

The table below shows the changes in economic value of equity (= value sensitivity) for the 6 supervisory interest rate shocks and the changes in net interest income (= NII sensitivity) for the supervisory up and down shocks. As this is Crelan Group's first time reporting [16] of the table, there are no figures for last period.

The parallel up shock causes the largest decline in value. The decline represents approximately 11% of Tier 1 capital, which is a level well below the 15% threshold.

NII sensitivity is negatively impacted by the 11 bps floor on regulated savings accounts in the down shock scenario. The threshold for NII sensitivity (a 'large decline' of the net interest income) is currently being developed by the EBA.

16 Crelan used to report under the framework of the Belgian NBB via the 90.30 table

Table 19 - Interest rate risk of non-trading book activities

Supervisory shock scenarios	a	b	c	d
	Changes of the economic value of equity		Changes of the net interest income	
	Current period	Last period	Current period	Last period
1 Parallel up	-230,1		48,2	
2 Parallel down	-8,0		-76,0	
3 Steepener	-86,1			
4 Flattener	-13,5			
5 Short rates up	7,0			
6 Short rates down	-0,6			

9.2. Market Risk Trading Book

The market risk in Crelan Group's trading book is the risk of loss arising from adverse movements in interest rates, market prices or exchange rate fluctuations of the trading book.

9.2.1. Description of trading activities and policies of hedging and risk mitigation techniques

The dealing desks serve internal or external clients. None of the activities these dealing desks conduct is intended to profit, from short term movement in the markets or from bid-offer spreads. Crelan Group has the following dealing desks:

Intermediation activities EMTN/Performance swaps: Previously, Crelan Group issued EMTNs for its own retail clients but also for retail clients of some AXA Group entities (e.g. AXA Belgium). Intermediation activities fully hedged these EMTNs' payoffs in the market via performance swaps. However, some residual positions can come to exist after the issuance, during the lifetime of these EMTNs. This occurs when clients sell their EMTNs back to Crelan Group before its maturity. Positions bought back from clients are unwound in the market when the total open position per strategy reaches a tradable amount. Besides its own EMTNs, Crelan Group is also offering externally issued EMTNs to its retail clients.

Intermediation activities derivatives: The Intermediation desk Interest rates & Equity Derivatives activity has ceased to exist as from December 2020. Only a few legacy IRS remained during a part of 2021 and have been completely unwound in 2021.

Eurobond sale desk: make primary and secondary Eurobond emissions available to retail customers via their home banking.

Moreover, the trading book is subject to materiality thresholds that have been introduced by the NBB in 2015 in the framework of the new Belgian bank legislation. The 'Non-Risk-Based Ratio' for Crelan Group, which is based purely on volume, is well below the threshold defined by the NBB. The 'Risk-Based Ratio', which reflects the underlying risks, is also remarkably lower for Crelan Group than the regulatory threshold. This can be explained by the limited market risk strategy for its trading book resulting in low Market Risk Weighted Assets.

Furthermore, Crelan Group's risk limit framework ensures that the VaR with a 99% confidence level and a holding period of 1 day does not exceed 0.25% of T1 capital as requested as well by the Belgian banking law.

9.2.2. Market Risk Management and Governance

Crelan Group's Board of Directors defines the risk appetite and other key metrics that set the levels of acceptable market risk that can be engaged by Crelan Group's business lines and branches. It also provides the final validation for any proposed organizational and reporting structures setup for the management of this risk. Although it regularly reviews risk reports, Crelan Group's BoD delegates its day-to-day management of market risks to Crelan Group's Executive Committee.

Crelan Group's Executive Committee is also responsible for ensuring that market risk management strategies are implemented and followed. It ensures that the bank's market risk appetite is respected. It reviews and coordinates the work done by the various departments and committees involved in the management of all risks, including market risks.

Crelan Group's BSRC receives a delegation from Crelan Group's Management Board and is responsible for ensuring that market risk management strategies are applied. This committee reviews market risk reports, monitors compliance with agreed risk appetite limits, guarantees the adequacy of the risk infrastructure and pre-validates and maintains risk indicators and models. Afterwards, the reports and main conclusions are sent for validation and endorsement to Crelan Group's Executive Committee and BoD. The BSRC focuses both on the banking and trading book activities.

Crelan Group's Financial Services Business Lines (Structuring activities, Eurobond Sales and Treasury) form the first line of responsibility for the management of market risk (respect market risk vs. PARP charter). These tree business lines fall under the supervision of the BSRC.

Crelan Group's Risk Management department also independently ensures that all sources of market risk are identified, analysed, reported and managed on a daily basis

Middle Office (MO) is responsible for the support of non-retail transactions and more precisely for their correct independent valuation, the development, maintenance and execution of hedge accounting solutions, the validation of the accounting P&L and related non-GAAP measures and for the production of economic reports.

Audit has a standing invitation to all BSRC meetings. It is the responsibility of the Internal Audit Department to periodically review the entire market risk management.

In terms of risk policy, Crelan Group maintains a very conservative approach to market risk of its trading book. The intermediation activity has ceased to exist as from end of December 2020. There was still some legacy IRS that were completely unwound in the course of 2021.

Market risk exposures are the object of a continuous follow-up. These exposures are compared to an overall economic capital limit covering all of Crelan Group's market risks. This risk appetite limit is completed by different VaR and sensitivity limits. Alert triggering and escalation processes are also used by Crelan Group's Risk Management department to ensure that Crelan Group remains within its conservative risk appetite for market risk.

To meet the Basel III minimum regulatory capital requirements, Crelan Group uses the Standardised Approach defined in Title IV of the CRD/CRR regulation to measure, monitor, report and manage its market risks. This approach measures the following components of market risks:

- General interest rate risk
- Specific interest rate risk
- Foreign exchange risk

The standardised approach for foreign exchange risk applies to all bank positions meaning positions from both Crelan Group's trading and banking books.

Template **MR1** in annex provides the quantitative and template **MRA** qualitative disclosure requirements for market risk at the end of December 2021.

9.2.3. Exposures to market risk

Crelan Group's market risk consists mainly of interest rate risk. In addition, the equity risk arising from the emission of Euro Medium Term Notes (EMTN) is low, since Crelan Group hedges this exposure in the financial markets. Furthermore, Crelan Group is not involved in any trading activities related to commodities.

Crelan Group is also offering externally issued EMTNs towards retail clients. During the period of commercialization Crelan Group bears the market risk as Front office agrees on a forward sale with the external issuer 6-8 weeks before the issuance of the note. Crelan Group currently calculates the VaR for third party EMTN issuances in a conservative way.

The activities mentioned in the previous paragraph are closely monitored by the Risk Management department from Crelan Group within a very strict limit framework. The VaR for all activities related to the trading book is limited to €5.8 million. The VaR for all activities related to the trading book is limited to €5.8 million. Crelan Group relies on Chiron by Yields for a historical VaR model 99.5% on a 10-day horizon. The historical model is based on a 2-year time series of scenarios with a weighted factor (decay) of 0.99. The VaR for all trading book activities at the end of 2021 is equal to €0.7 million and therefore well below the predefined limit.

Finally, this model is subject to the appropriate yearly back testing and validation by an external auditor to preserve the accuracy and relevance of the model.

9.2.4. Procedure and methodologies used for the classification of the transaction in the regulatory categories

Risk Management is responsible for the prudential definition of the boundary between trading and banking book.

The Market Risk Charter details the content of the trading book (which meets prudential definition of the boundary (see CRR Article 4 (85), (86)). Any changes to it need to be approved by the BSRC via a charter update and a dedicated presentation.

Furthermore, all new products, instruments and services or modifications to existing products, instruments of services are covered by the product approval process, which includes the analysis of the product sponsor, Compliance department as well as Risk Management. Those analyses ensure that all new trading activities, services or instruments launched comply with law, regulation and internal risk framework. Middle office is responsible for the daily valuation (MTM) of all the products in the trading book and must ensure together with MO the feasibility of market transactions and of BSRC decisions.

Crelan Group has no proprietary trading activities, only "client servicing" trading activities as detailed above.

Furthermore, Crelan Group holds some positions booked in 'held-for-trading' by the accounting. Those positions have a presumption to be part of the trading book due to their 'held-for-trading' accounting classification but were not included in the trading book because they all hedge banking book positions (see Art. 2 § 2, ii of the Royal Decree).

9.3. Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument fluctuates due to changes in exchange rates. Crelan Group operates a policy to minimise exposure to currency risk. Any material residual positions are hedged systematically. This risk is followed up and hedged on a monthly basis in the BSRC.

If foreign exchange positions capital requirements do not exceed 2% of the bank's total own funds, no own funds requirements for foreign exchange risk need to be calculated (Article 351 of the CRR). At the end of 2021, Crelan Group did not exceed this 2%.

9.4. Prudent valuation

9.4.1. Regulation

Article 34 of the Regulation 575/2013 states that all assets measured at fair value have to be taken into consideration for applying the standards of Article 105 which refers to the prudent valuation.

Hence, the Regulatory Technical Standards applies to all fair valued positions regardless of whether they are held in the trading book or banking book.

In this regards Crelan Group has developed a governance structure that screens all current procedures, policies, calculations, methodologies, etc. and makes sure that these are in line with the provisions set out by the European Union in light of the Prudent Valuation standards.

9.4.2. Framework

While Crelan applies the simplified approach for prudent regulation, ABB applies the core approach. In the COREP reporting, the ABB sub-consolidated reporting therefore still applies the core approach. The framework below describes the framework for the core approach.

Due to the role of the Middle Office (MO) within the calculation, monitoring, etc. of the Prudent Valuation, it is this unit that is responsible to review and eventually update the governance documentation at least on a yearly basis.

On top of this responsibility, it is MO's task to make sure that all actions related to the Prudent Valuation are executed within the governance framework. In case additional actions need to be taken to alter policies, calculations, etc. within the governance framework and within the scope of MO's tasks, they will be updated accordingly.

Applied methodologies

ABB uses the core approach to calculate the additional value adjustments for all the valuation positions in the scope of the regulatory standards for prudent valuation. These valuation positions include all financial instruments or commodities or portfolios of financial instruments or commodities held in both trading and non-trading books, which are measured at fair value. More specifically for ABB this comprises all positions in derivatives, fixed income instruments and EMTNs.

The above mentioned is correct for those AVA's calculated within the scope of MO (i.e. Market Uncertainty and Close-Our-Cost AVAs), except for the AVA for operational risk. The latter is determined as being 10% of the sum of the Market Uncertainty (MU) and Close-Out-Cost (CoC) AVA.

Use of market data

ABB makes use of the following market data providers: Bloomberg and Tradeweb.

On the one hand Bloomberg and Tradeweb are used as data source for the calculation of the market uncertainty adjustment for derivatives. On the other hand, the close-out cost adjustment is calculated based on data coming from Bloomberg only. The market uncertainty adjustment for fixed income positions is also calculated based on data coming from Bloomberg only.

Review and approval process

The documents related to the prudent valuation are reviewed at least on an annual basis. This review and update process mainly focusses on the business-as-usual processing within the Prudent Valuation framework.

Any significant changes to the applied methodology will be validated by Risk Management and be approved by the BSRC. This review and approval process for specific changes runs alongside the yearly review process but is more based on an ad-hoc approach

9.4.3. Systems and controls requirements

Independency

Market prices and marking to model inputs are regularly verified for accuracy and independence by MO at least on a monthly basis. This verification is done independent from Front Office who benefit directly from the trading book. The latter guarantees the requirement with regard to the independent price verification process linked to the fair-value of each position taken into account for the prudent valuation calculation.

Next to this, any changes executed by MO within the independent price verification process that imply changes in the models (i.e. marking to model) or relevant market data (i.e. direct or indirect market data that affect mark to market or marking to model) proposed by MO run through a verification and validation process with the approval by Risk Management before putting it into production. Presentation of these results are also discussed and presented to the WRC.

On top of that, the effective monitoring, AVA calculation execution and reporting is as well done by Middle Office as an independent control unit.

Controls, valuation and processing

An overview of the validated pricing models and market data for each product type is maintained on a regular basis.

The performance of the model is monitored by Middle Office on a regular basis and at least on a half-yearly basis a report including an analysis and conclusion of this performance has to be sent to Risk Management for approval.

This official half-yearly review is subject to external audit and Risk Management approval. Middle Office also conducts this Valuation check on a more frequent basis for internal use.

This check also guarantees that the valuations provided by ABB, which are valued with certain pricing models, are in line with the market. This gives a good view on potential valuation model and/or market data issues which can then result in a model improvement, methodology changes or another transformation of market data to improve the ABB valuations. This valuation check will therefore also include a market data and valuation model assessment, next to the above stated goals.

It is therefore Risk Management’s responsibility to provide their opinion on the numbers, the used market data and the suitability of the valuation models and techniques. This will be included in their validation report. After the formulation of this opinion, either positive of negative, this will be presented to the Wholesale Risk Committee (or its proceeding governing body) for approval.

In the end, it will hence be a Middle Office task to transform these opinions into actions to improve the valuation either by more accurate market data or a new/changed valuation model. The latter may not only be derived from this official half-yearly review, but as well from the non-official and more frequent review executed by Middle Office.

10. Liquidity risk

The BCBS defines the liquidity risk as the risk of not being able to quickly and easily increase the cash position to absorb shocks as a result of financial and economic stress.

Crelan Group's Risk Taxonomy considers the following two aspects of liquidity risk which all fall within the scope of liquidity risk management:

- Short Term Liquidity Risk defined as the risk that the bank cannot meet its financial liabilities when they come due (within a month), at a reasonable cost and in a timely manner. It results from short term cash and collateral positions (intra-day, overnight, one day to one month).
- Structural Liquidity Risk defined as the risk that the bank cannot meet its financial liabilities when they come due on a medium- and long-term horizon (more than one month), at a reasonable cost and in a timely manner.

10.1. Liquidity Risk management and Governance

More details concerning Liquidity Risk Management can be found in template **LIQA** in annex.

10.1.1. Governance

The governance of Crelan Group's liquidity risk can be summarised as follows:

- Crelan Group's BoD and Crelan Group Management Board assume the responsibilities described in section 2.1 for the management of liquidity risk.
- Crelan Group's BSRC manages the structure of the bank's balance sheet, aiming to optimise its liquidity position. Consequently, it applies and implements liquidity risk management strategies. It reviews liquidity risk reports and monitors compliance within agreed limits by following relevant liquidity indicators. The BSRC is assisted in this work by the Balance sheet management team and the Financial Risk team.
- The functional management of the bank's structural liquidity belongs to its ALM department. ALM reports on the Bank's structural liquidity risk to its senior management. It ensures that BSRC decisions pertaining to the management of structural liquidity risk are implemented. It also develops, calibrates, and maintains Crelan Group's liquidity risk indicators.
- The Treasury Department is responsible for the liquidity of the bank up to one year. This department also acts as the central team in the liquidity management of the group units (Crelan, ABB, SCF, etc.).
- The Financial Risk department independently ensures that all sources of liquidity risk are identified, analysed, reported, and managed.

10.1.2. Declaration on the adequacy of liquidity risk management arrangements (pursuant to Article 435 of the CRR)

Crelan Group has concluded its annual Internal Liquidity Adequacy Assessment Process ("ILAAP") and the view of the management body is that Crelan Group has an adequate level of liquidity, both from a normative and an economic point of view. Crelan Group shows throughout the ILAAP that it has a strong liquidity risk framework which allows to identify, measure, mitigate, monitor, and report liquidity risks. This allows Crelan Group to pursue its intended business strategy while at the same time ensuring a sound liquidity position, even under a prolonged period of adverse developments.

In a normal market environment, all internal and regulatory indicators are expected to remain above the Risk Appetite Framework alert level over the next

3 years. This confirms that the strategic plan of the next years is feasible from a liquidity risk perspective. Moreover, Crelan Group has access to reliable mitigating actions to restore the LCR above the limits in a timely manner, should the need arise.

The recent Russian invasion of Ukraine has sent shocks to the financial markets. Inflation had been rising sharply prior to this conflict, due to earlier commodity price increases and disrupted supply chains in the remarkably strong recovery from the COVID-19 crisis. The invasion and the sanctions imposed will put further pressure on the global energy supply, the supply of specific raw materials and global trade. As a result, it looks like inflation will not decline anytime soon and interest rates are therefore expected to rise during 2022. It remains to be seen how the recent developments in the world economy will impact the liquidity position of the Crelan Group. Crelan Group's management body is however of the view that its liquidity buffer is sufficient to absorb negative impacts. The Crelan Group ended the year 2021 with an LCR at 178.4% (€ 3.128 million excess liquidity).

This declaration is also approved by the Board of Directors.

10.1.3. Risk policy, limit framework and reporting

The integration of ABB into the Crelan Group structure has resulted in a suitable framework for liquidity risk which is based on both regulatory and internal indicators.

In order to evaluate and manage its consolidated liquidity risk, it monitors two kinds of indicators:

1. Internal indicators: Internal Liquidity Stress indicator (ILS);
2. Regulatory indicators: LCR, NSFR and ALMM.

All these indicators are underpinned by a common approach: guarantee that Crelan Group's liquidity buffer is sufficient to cope with a range of stress events. More specifically, the own Internal Liquidity Indicator has been designed to ensure that Crelan Group maintains an adequate liquidity cushion to be able to withstand combined idiosyncratic and market stresses over a three-month time horizon.

Those key liquidity indicators have been used to define the risk appetite statements.

Figure 21 - Crelan Group's risk appetite statements for liquidity

Crelan Group Risk Appetite Statements for Liquidity				
Indicator	**Strategic or functional RAS**	**Standard**	**Monitoring**	**Alert**
LCR	**Strategic**	**> 130%**	**< 130%**	**< 125%**
NSFR	**Strategic**	**> 120%**	**< 120%**	**< 112%**
ILS	**Strategic**	**> € 1.3 billion**	**< € 1.3 billion**	**< € 1 billion**

- Internal Liquidity Stresses (ILS)

In the beginning of 2022, ABB and Crelan (including Europabank) have set up a joint economic liquidity indicator, called the Internal Liquidity Stress indicator (ILS). The purpose of the ILS is to determine the amount of liquidity, measured in High Quality Liquid Assets (HQLA), required to withstand a stress. The internal liquidity stress methodology is derived from the regulatory Liquidity Coverage Ratio (LCR) reporting requirements.

It contains a stress scenario which is measured of a three-month time horizon. The scenario assumes a financial market stress in which the interest rates decrease by 125 bps. This will result in more collateral outflows. Secondly, the scenario assumes a widening of credit spreads on bonds by 150 bps, which will decrease the value of the bond portfolio.

Besides the financial market stress, the ILS also assumes an idiosyncratic crisis. This will lead to retail and wholesale clients to change their behaviour resulting in potential outflows. The idiosyncratic stress applies outflow rates on deposits which are 50% higher than those of the regulatory LCR indicator, it assumes extra outflows for pipeline loans and limits the inflows to the principal payments on retail loans.

The HQLA buffer to withstand this stress scenario is also forecasted over the three-month time horizon. After subtracting the stressed outflows from the HQLA buffer, the ILS foresees the possibility of mitigating actions. These are actions that can boost the liquidity of the bank within the projected three-month time horizon. This is mainly composed of the ability for ABB to issue new retained covered bonds.

Table 20 - ILS

in '000 EUR	ILS	Limit	Buffer
End of December 2021	2,886,449	1,000,000	1,886,449

- Regulatory Indicators

Crelan Group monitors the LCR, NSFR and ALMM of the Basel III framework.

LCR (Liquidity Coverage Ratio) became binding in October 2015 while NSFR (Net Stable Funding Ratio) became binding with the introduction of the CRR II in June 2021. ALMM (Additional Liquidity Monitoring Metrics) is reported to the regulator since April 2016

- ILAAP (Internal Liquidity Adequacy Assessment Process)

Since 2021 Crelan Group is required to produce, at least once per year, a clear and formal statement on the assessment of the liquidity adequacy named the ILAAP exercise. The ILAAP contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes, and methodology to measure and manage liquidity and funding risks and is part of the Supervisory Review and Evaluation Process (SREP).

10.1.4. Policies for hedging and risk mitigation techniques

As part of the ILAAP process the integration of all Crelan Group entities will result in the drafting of a consolidated liquidity contingency plan. This plan will allow the bank to establish a special task force which, during systemic or idiosyncratic liquidity crises, must immediately intervene and take appropriate action. This will lead to a stronger awareness of liquidity risk at all management levels, as well as a more rigorous follow-up. Regular forward-looking projections of the main liquidity ratios will support the active management of the liquidity risk within Crelan Group.

10.2. Liquidity Buffer assessment

Crelan Group enjoys a very robust liquidity position as demonstrated by its strong liquidity buffer that clearly exceeds regulatory and internal limits.

Both BIII indicators are well above the minimum requirements at the end of 2021 (100% limit) thanks to a comfortable stock of liquid assets and a solid financing structure.

Table 21 - Liquidity ratios

Ratio	12/31/2021	Limit
LCR	178%	100%
NSFR	142%	100%

10.2.1. LCR

The LCR disclosure template, **LIQ1** in annex, gives an overview of the calculation of the LCR buffer and ratios. Template **LIQB** in annex is a complementary table to **LIQ1** which provides qualitative information on LCR.

The information disclosed states the values and figures for December 2021. Since this is the first time that Crelan Group has to report the disclosure templates, the historical observations that are used to calculate the averages are not yet available.

The liquidity buffer as reported in **LIQ1** is made up of central bank cash deposits and bonds. Apart from a small amount of Level 2A and 2B assets, the bond portfolio consists mainly of Level 1 LCR eligible assets, of which the bulk has a central government or supranational organisation as its issuer. The main contributors to the outflows are the outflows for retail funding, the outflows for non-retail deposits and the foreseen outflows for loans in the pipeline. The main contributor to the inflows is the foreseen repayments of retail loans.

In the calculation of the LCR ratio, both the additional collateral needs resulting from an adverse market scenario as well as callable excess and due collateral have to be accounted for as additional outflows.

Crelan Group adds an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution’s derivatives transactions, financing transactions and other contracts if material. This additional outflow is calculated based on the application of the Historical Look-back Approach.

10.2.2. NSFR

The NSFR disclosure template (see template **LIQ2** in annex) gives an overview of the calculation of the NSFR of Crelan Group. The main sources of stable funding for the Bank are Retail deposits (€38,347,717 thousand on 31 December 2021) and covered bonds (€-5,538,158 thousand on 31 December 2021).

ABB created ABE SCF for issuing these covered bonds, whereby ABE SCF directly purchases mortgage loans from ABB. The interest payments of the mortgage loans held by ABE SCF are transferred with yield-maintenance swaps between ABB and ABE SCF. This will also allow executing a secured loan transaction between ABB and ABE SCF with mortgages as underlying collateral to issue covered bonds with a shorter time to market.

The strong underlying quality of ABB's retail mortgage portfolio in Belgium is the ideal collateral for a covered bond program. This program enables the bank to manage its liquidity risk. It provides ABB with diversification in funding sources and minimises funding concentrations in time buckets. The covered bond program gives ABB and by extension Crelan Group access to the covered bond market, allowing the bank to reduce the cost of long-term institutional funding. This program offers the bank access to funding markets that remain open in times of market stress. ABB launched its first covered bond in November 2010. The covered bond program amounts to €8.75 billion in 2021 of which €5.5 billion remains on a consolidated level: €5.5 billion are placed in the market, and €3.25 billion of these covered bonds are retained by ABB and were eliminated in the consolidated balance sheet.

11. Assets encumbrance

Qualitative information on asset encumbrance of Crelan Group and information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model can be found in template **AE4** in annex.

11.1. Sources of encumbrance of assets

The total amount of encumbrance of assets of Crelan Group is €11.35 billion at 31/12/2021 (template **AE2** in annex) and the 6 sources of encumbrance are:

- ECB funding: €1.8 billion is encumbered at the ECB for TLTRO and other short term ECB funding, covered by debt securities and retained covered bonds.
- Derivatives: €0.54 billion cash is given as collateral for derivatives.
- Covered bond: €6.65 billion mainly mortgages is encumbered for the covered bonds sold to the market.
- CASPR synthetic securitisation: the cash hold by Crelan Group that securitised the sold CLNs is considered as encumbered (€54 million).
- Collateral swaps: €2.1 billion given retained covered bonds in a collateral swap.
- Other sources: €84 million cash for different counterparties (Visa, Mastercard, Tax authorities ….).

Template **AE3** in annex should provide in normal circumstances following Article 443 CRR the medium value of both the carrying amount of the selected financial liabilities and the carrying amount of matching liabilities, contingent liabilities or securities lent. As the closing with ABB was on 31/12/2021, the medium value of the carrying amounts would give a distorted picture of the situation of Crelan Group at end 2021, as a consequence the value of the carrying amounts at 31/12/2021 are reported in template **AE3** instead of the medium values.

11.2. Unencumbered assets

The total amount of unencumbered assets is €41.66 billion at 31/12/2021 of which €864 million unencumbered debt securities, available to use as collateral and which can be easily encumbered. The other unencumbered assets mainly consist out of mortgages (€35 billion), which could be encumbered if needed (new RMBS, new Covered bonds…). Only a small part of other assets is not available for encumbrance: tangible assets (property, plant and equipment), goodwill, tax assets, accounting specific amounts (fair value of the hedged items for interest rate risk). More details concerning the encumbered and unencumbered assets can be found in template **AE1** in annex.

12. Operational risk

Crelan Group defines operational risk, as the risk of loss resulting from inadequate or failed internal processes, or from employees or systems. The failure or inadequacy may result from both ianternal and external causes.

In the Basel framework, operational risk is divided into 7 categories:

i. **Internal Fraud:** fraudulent financial reporting, improper of fraudulent financial activity as well as misappropriation of assets and other internal frauds.

ii. **External Fraud:** theft and fraud as well as information system fraud.

iii. **Employment Practices and Workplace Safety:** employee relations, diversity and discrimination, safe environment, loss of key staff and talent management.

iv. **Clients, Products and Business Practices:** suitability, disclosure and fiduciary, improper business or market practices, incl. advisory activities, breach of regulation and legislation, unauthorized activity, product flaws

v. **Damage to Physical Assets:** natural disasters, vandalism, terrorism, etc.

vi. **Business Disruption and Systems Failures:** system disruptions and breach of information security

vii. **Execution, Delivery and Process Management:** data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets, etc.

For Crelan Group, the definition of Operational Risk also includes Compliance Risk, which is defined as the risk of loss resulting from the failure of an institution to adopt appropriate policies, procedures or controls, to comply with its legal obligation arising from laws, regulations, or any other type of binding contracts (see section 12.3).

For Crelan Group, the definition of Operational Risk excludes Reputation Risk and Strategic Risk. However, when assessing the impacts of operational risks, the potential damages to AXA's reputation are considered by a qualitative indicator while major damages are followed by the Group.

Qualitative information on Crelan Group's operational risk can be found in template **ORA** in annex.

12.1. Risk management and Governance

12.1.1. Governance

Crelan Group's Management Board delegates to the Audit, Risk, and Compliance Committee (ARCC) the following responsibilities with regards to operational risk: the implementation of the operational risk management framework, giving guidelines to embed it in ABB's business-as-usual activities and reviewing and validating all important decisions or information relating to Crelan Group ORM (Set of Standards (Crelan), ORM Charter (ABB), economic capital results (ABB), methodology, processes, reporting, documentation, etc.).

All business lines and entities within ABB have full ownership of the operational risks they face in the practice of their activities.

The Operational Risk management team, the Compliancy team and the Security & Privacy team ensure that Operational Risks are identified, assessed, measured and mitigated in accordance with the Crelan Group standards.

For the regulatory capital calculation for Operational Risk, the Standardised Approach (TSA) is used.

Crelan's management used KORI (Key Operational

Risk Indicators), RMSA (Risk Self Assessment) and LDC (Loss Data Collection) to follow up on Operational Risk.

ABB's management used an annual recurring Operational Risk Management cycle ("ORM cycle") to identify, quantify, decide on and mitigate its material operational risks. The ORM Cycle provides ABB's senior management with an indication on the most significant operational risks faced by ABB.

12.1.2. Risk policy, limit framework and reporting

For the regulatory capital Crelan Group applies the Standardised Approach.

For its economic capital, ABB had implemented an internal model that has been developed by AXA Group. This model is similar to an Advanced Measurement Approach (AMA). The economic capital calculation is an annual process based on risk assessments, that identify and quantify the relevant and material operational risks faced by ABB in the coming year.

Just as in past years, the focus for 2021 remained on detecting and preventing fraud and cyber risks (hacking, phishing and cyber/virus-attacks), regulatory risks (related to MIFID, AML, GDPR, …) and people risks (key employee exposure, loss of staff, …).

The team of Operational Risk continuously works on 'risk awareness' within the entire organisation (by organising training courses for the different business lines, participating in major projects and product launches, by establishing a network of risk correspondents). In 2021, efforts continued for further optimisation of both the 'Loss Data Collection' process and the 'Operational Risk Cycle' process, with a specific focus on a structural framework for 'risk responses' (action plans, risk acceptance). The team of operational risk uses a RAF, in which the playing field for operational risk in Crelan Group's processes is defined and monitored.

12.1.3. Operational risk mitigation

Decisions regarding risk topics are made in the ARCC. Different options are possible:

- Accept the risk as the current situation already balances control cost and efficiency with desirable risk level.
- Transfer the risk (e.g.: insurance contract establishments for fire incidents, cyber incidents and agent fraud).
- Mitigate the risk with action plans to strengthen the process and to reduce the risk to a lower/ acceptable level. These action plans are defined by the business, challenged and monitored by the operational risk team and reported quarterly to Management.
- Avoid the risk by eliminating the activity that carries the risk (if possible).

The ABB team of Internal Control performs 2nd line monitoring of the key controls, covering the main risks in our processes.

12.2. Requirements for Operational risk

Crelan uses The Standardised Approach (TSA) for calculating capital requirements for operational risk as discussed in section 12.1.1. This approach considers the various business lines with a specific beta factor. For Crelan the relevant business lines and their beta factor are:

Table 22 - Beta factors for operational risk

Business Line	Beta factor
Trading and sales	18%
Retail Banking	12%
Commercial Banking	15%
Payment and settlement	18%
Retail Brokerage	12%

The own funds requirements are calculated as the 3-year average of the sum of the capital charges across each business line. Negative capital charges can offset positive capital charges without limit. For the requirement in 2021, the relevant business lines are based on the year-ends of 2019 to 2021.

The TSA method results in an Own Funds requirement of €90 million with a corresponding RWA of €1,126 million at the end of 2021 as seen in template **OR1** in annex.

Table 23 - Crelan Group's Own Funds requirements for Operational Risk

Item	Dec-2021	Of which Crelan (including Europabank)	Of which ABB
Operational risk (€ million)	**1,126**	**574**	**552**

12.3. Compliance Risk

Compliance risk represents, according to the FSMA, the risk that an institution and/or its employees will be sanctioned at the judicial, administrative, or regulatory level due to non-compliance with the rules of integrity and legal and regulatory conduct, with the consequence, loss of reputation and possible financial harm. This loss of reputation may also be the consequence of non-compliance with the internal policy in this area, and with its own values and rules of conduct in terms of the integrity of the institution's activities. A loss of reputation can undermine the credibility of the institution and its employees. Credibility represents the fundamental element to be able to be active in the financial sector.

The risks of "compliance" can be multiple:

- damage to reputation, which tarnishes the image of Crelan,
- negative publicity that damages customer confidence,
- legal sanctions, including against natural persons whose liability would be called into question,
- the administrative penalty, which may lead to limitations or withdrawals of approvals or licenses,
- the financial loss that the Bank may incur as a result of non-compliance with applicable banking laws, external regulations issued by the supervisory authorities (NBB/FSMA) as well as codes of conduct or standards of good practice applicable to the banking sector.

Compliance risk management at Crelan Group is based on a general integrity policy, a Compliance charter and a policy for reporting fraud and serious wrongdoing (malfunctioning) and protecting declarants. These documents are reviewed on a regular basis to take into account the constant evolution of the regulatory framework and due to changes observed in public opinion.

The organization and operation of the Compliance department are as follows:

General Compliance Officer (GCO) who coordinates and supervises the Compliance function. He therefore assumes overall responsibility for the compliance of Crelan and its subsidiaries and ensures the execution of the integrity policy.

Two Compliance Officers who ensure the execution of the integrity policy.

A team of several Compliance advisers and collaborators, with a certain specialization in particular:

- a first group, mainly in charge of recurring activities related to the prevention of money laundering and the prevention/management of fraud.
- a second group, more specifically dedicated to formulating opinions and carrying out more specific or ad hoc analyzes and which also deals with other sub-areas such as MiFID, privacy, investor and consumer protection, etc.

Local Compliance Officers within several departments of the bank where they exercise their main function in the activities for which they are also LCO.

The operation of this structure is detailed in the Compliance charter.

The Compliance Department intervenes in several key activities of the bank using policies, procedures and second-line controls. As there are: the prevention of money laundering and terrorist financing, including in the field of granting and managing credits, compliance with legal and regulatory requirements regarding MiFID, compliance with the NBB's outsourcing requirements, the conflicts of interests, etc. ...

13. Other risks

13.1. Business Risk

Crelan Group defines business risk as tahe risk due to potential changes in general business conditions, such as market environment, client behaviour and technological processes. This can affect results if the bank fails to adjust quickly to these changing conditions. The definition includes Strategic risk and Technology risk.

Several processes take part in the mitigation of this specific risk. First, targets for volumes and margins for the year are defined by both Crelan Group's Executive Committee and BoD. Sensitivity analyses are performed on these targets based on scenarios whose business risk is one. Then, there is a close monitoring of the objectives that leads, if necessary, to their review by Crelan Group's Executive Committee. This review also takes into account competitors thanks to benchmarking exercises performed on a regular basis. In addition to this follow-up, the more specific BSRC regularly monitors and manages from an ALM perspective the margins of all the assets and liabilities of the bank.

Crelan Group has also implemented strong governance regarding the commercial products. Crelan Group's Executive Committee has delegated the management of specific risks to specialised sub-committees. The launch of a product or a significant modification to an existing one should go through a rigorous Product Approval and Review Process (PARP), where the business risk is taken into account through an in-depth analysis of commercial margins and potential adverse events that can affect them.

Economic capital is calculated based on a scenario approach (e.g. deterioration of margins or miss of a technology).

13.2. Model Risk

Crelan Group defines model risk as the risk of losses arising from decisions based on incorrect or misused model outputs and reports. It is a material risk, hedged by processes.

Model risk is mitigated thanks to processes and indirectly by capital through add-ons in the IRB retail credit risk. In order to better mitigate model risk, Crelan Group put in place a model risk management framework. Crelan Group's model risk management framework is documented in a model risk management policy and is closely aligned to the overall risk management framework of the bank.

13.3. Reputation Risk

The reputation risk is the risk that an event will negatively influence stakeholders' perceptions of Crelan Group and its subsidiaries (Crelan, Europabank and AXA Bank Belgium).

The responsibility of this risk belongs to the Board of Directors and Management Board. They are assisted in this task by various departments among which the Bank's Marketing & Communication department and the Compliance and Risk Management departments.

While Crelan and AXA Bank Belgium work on the integration of the two banks with the goal to continue all banking activities under the Crelan logo (foreseen for spring 2024), the two brands will continue to exist side by side. During this period, AXA Bank Belgium will continue protect the AXA brand and will align with AXA Group's reputation team on certain reputation risks.

Crelan Group has defined processes to handle the reputation risk, that ensure a prompt and appropriate reaction in case of materialization of the risk.

13.4. Political and Regulatory risk

Crelan Group mitigates this risk through a political monitoring in all countries where it is active by the local senior management. The non-retail credit risk team monitors closely all countries in which Crelan Group or one of its subsidiaries has an exposure due to investment portfolio, derivative activities, repo activities, ….

To ensure a clear view on the regulatory environment Crelan Group has defined a Regulatory Watch framework, which mainly consists of a Regulatory Watch inventory and its respective correspondents.

13.5. Environmental, Social and Governance (ESG) Risk

ESG risks include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations. Climate change and the response to it by the public sector and society in general have led to an increasing relevance of ESG factors for financial markets. It is, therefore, essential that financial institutions are able to measure and monitor the ESG risks in order to deal with transition and physical risks.

In this light, the EBA published in December 2019 an action plan with respect to sustainable finance. In this action plan, EBA discusses the different mandates with respect to sustainable finance (strategy and risk management, key metrics and disclosure, stress testing and scenario analysis and prudential treatment).

13.6. Pension Risk

Crelan Group defines pension risk as the risk of facing additional contributions to pension schemes owned by Crelan and risk of variation in IAS19 results, and subsequently in solvency.

14. Remuneration risk

Crelan Group defines its remuneration risk as the risk that its overall remuneration policy does not support its business strategy, risk tolerance objectives, values, long-term interests or that it encourages excessive risk-taking. It is a material risk hedged through processes.

As mentioned in section 1.2.1.2.2, there is currently no overarching Remuneration Policy for Crelan Group in place. This will be part of one of the Execution Projects that need to be completed within 27 months after closing. Therefore, the following sections highlight the policies, objectives and committees of both Crelan and ABB.

14.1. Remuneration policy

For Crelan and ABB the remuneration policy is established in accordance with each of their strategy, objectives, values and long-term interests see more details in template **REMA** in annex. It also contains measures to avoid conflicts of interest. The remuneration policy is aligned with the appropriate and effective management of risks and thus forms an important element of good governance, both with regard to employees and effective and non-effective managers.

At all levels of its remuneration policy, both Crelan and ABB wants excessive risks to be avoided and priority to be given to its long-term interests.

14.1.1. Remuneration of the members of the Board of Directors

All the members of the BoD are considered as “Identified Staff” (Category 1). As a consequence, the principles set out under point 2 hereunder apply to them in full.

NON-EXECUTIVE DIRECTORS

For the remuneration of the independent, non-executive Crelan and ABB directors, their contribution to the work of the BoD and of the committees within the BoD will be considered. This is in accordance with the market standards.

The Directors concerned are reimbursed in the form of allowances laid down by the BoD for both the exercise of their mandates in the BoD, and for their mandates in the committees which have been set up within the BoD.

The mandate within the Crelan and ABB Board of Directors of the non-independent, non-executive directors do not entitle them to any additional compensation.

Non-executive directors do not receive any variable compensation.

EXECUTIVE DIRECTORS

The remuneration is in accordance with the Law relating to articles of association and monitoring credit institutions of 25 April 2014, known as the Banking Act. The main objective involves aligning the principles and structure of remunerations with sound and efficient management of the company (including risk monitoring).

The policy concerning the remuneration of the directors should make it possible:

- to attract, develop, retain and motivate talent,
- to encourage and reward the best performance,
  - both on an individual and collective level, and
  - in the short, medium and long term
- to align the remuneration level with the results of the company,
- to guarantee adequate and efficient risk management.
- The Remuneration Guidance follows three main guiding principles:

- the competitiveness and market consistency of remunerations,
- coherence and internal equity, based on individual and collective performance, in order to ensure fair and balanced remuneration reflecting employee's individual quantitative and qualitative achievements and impact; and
- the results and the financial capacity of the company.

14.1.2. Remuneration of the "identified staff"

Taking into account Article 67 of the law of 25 April 2014 on the status and supervision of credit institutions and the implementing decrees and the Delegated Regulation, and subject to additional criteria:

The BoD of CrelanCo has determined the scope of the Identified Staff as follows:

- Non-executive managers, in this case the Directors;
- Effective managers, in this case the members of the Management Committee;
- Directors who are responsible for the independent internal control functions, namely Compliance, Internal Audit, Risk and Network Inspection;
- Trading Room employees;
- Legal Affairs & Complaints Manager;
- Security Officer.

The BoD of ABB has determined the scope of the Identified Staff as follows:

- Category 1: The members of the BoD;
- Category 2: The members of senior management;
- Category 3: The staff members with a position that implies risk-taking determined in accordance with the Delegated Regulation and other regulations;
- Category 4: The control functions that are responsible for the operational independent control functions;
- Category 5: The staff members determined in accordance with the Delegated Regulation, whose total remuneration places them on the same remuneration level as the senior management and the persons with a position that implies risk-taking.

Structure of the remuneration of Identified Staff

The remuneration policy of both Crelan and ABB is structured in such a way that the total remuneration package is divided in a balanced way between the fixed component and the variable component.

The composition of the total package aims not to encourage any excessive risk-taking. The fixed component of the total remuneration package is significant enough to reward the staff members for their work, seniority, expertise and professional experience and to guarantee a totally versatile variable remuneration policy being set out, and notably the policy of not paying any variable remuneration.

More details about the fixed and variable remuneration of Identified Staff found in the templates **REM1-REM5**.

14.2. Governance of the remuneration policy

Crelan's remuneration policy is established in accordance with the Bank's strategy, objectives, values and long-term interests. It also contains measures to avoid conflicts of interest. The remuneration policy is aligned with the appropriate and effective management of risks and thus forms an important element of good governance, both with regard to salaried employees and effective and non-effective managers.

ABB also shares similar goals: it has a long-term remuneration plan, the rules of which are determined by the remuneration policy. These rules may be adapted regularly, notably depending on decisions taken at the level of the AXA Bank BoD and the evolution of the (inter)national regulatory framework. The Executive Board has decision-making competence concerning the establishment of the remuneration policy and decision-making relating to the individual remuneration of the persons affected. In this domain, it is assisted by 2 committees: the Remuneration Committee and the Risk Committee.

At all levels of its remuneration policy, both entities want excessive risks to be avoided and priority to be given to its long-term interests.

14.2.1. The Remuneration Committee

This committee actively contributes to implementing the remuneration policy. It consists of non-executive directors, at the moment 2 out of 4 members are independent and one of the independents acts as chairman. It is composed so as to allow it to exercise pertinent and independent judgement on remuneration policies and practices, and on the incentives created regarding the control of risk, equity requirements and the liquidity position.

They propose, in the form of advice and in accordance with the remuneration policy, decisions to be taken by the Executive Board relating to remuneration principles and procedures.

The remuneration policy may be revised by decision of the Executive Board on a proposal from the Remuneration Committee at any time, and notably in the event of legislative amendment associated with labour, accounting and tax law, as well as in the event of the rules of governance changing.

Its implementation is subject, at least once a year, to an internal assessment aiming to verify whether it respects the remuneration policies and procedures, adopted by the Board of Directors.

14.2.2. The Risk Committee

For both entities, this committee consists of non-executive directors, at least one of whom is independent in the sense of the Companies Code. The Committee examines whether the incentives provided by the remuneration system take into account the appropriate manner of risk control, equity requirements and the liquidity position of the bank, as well as the probability and staggering of profits, so as to ensure sound and efficient management of risk, preventing risk-taking exceeding the level tolerated.

14.3. Performance measurement criteria

The main criteria that apply for both Crelan and ABB are:

- The base amount for the variable remuneration can be a percentage of the fixed remuneration or an absolute amount.
- Where applicable, the composition of the variable remuneration - the various components and financial instruments - will take into account the long-term interests of the Bank.
- A minimum guarantee (‘floor’) of variable remuneration is excluded in principle but may be granted exceptionally during the employee’s first year of entry into service provided that it is compatible with the long-term interests of the bank.
- A maximum (‘cap’) of variable compensation is systematically determined and communicated in advance to the employees concerned.
- The variable remuneration may be reduced if the bank achieves weaker or negative results.

- The remuneration of the members of the Management Committee consists of a fixed base and a variable component.
- Variable compensation is awarded after approval of the bank's annual results. It is partly paid in cash and, for the most part, in a group insurance.

Specific for ABB, the performance is taken into consideration by means of the result of the STIC (Short Term Incentive Compensation) Grid. This "STIC Grid" consists of key indicators of activities and results with each receiving a certain weighting and taking risk criteria into account.

The (individual) performance is measured by the achievement of (individual) financial and non-financial performance criteria, defined as:

- quantitative objectives (which are taken into account for at least 25% of the variable remuneration); and,
- qualitative objectives (general attitude, risk awareness, alignment with the interests of the customer, the employee and the shareholder).

They are measured over various periods of time (achievements on a yearly basis, but also on a multiannual basis) for the years to come by means of observed performances and individual assessments with regard to the fixed objectives.

These objectives are determined in accordance with a fixed system, whereby objectives are:

- determined based on the 'SMART' principle: Specific, Measurable, Assignable, Realistic, Time-related;
- determined by 'success criteria';
- balanced;
- validated by both parties; and,
- formalised in the 'YES Performance' performance document within the ABB deadline.

The Individual Performance Plan applies to the Identified Staff in all business lines of the bank and consists of an individual part that is linked to the performance score, which takes into account the results and risk/risk management objectives.

14.3.1. Malus and Clawback framework

The bank's malus and clawback provisions allow the BoD to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the already paid/vested variable remuneration recovered in certain situations.

ABB and Crelan may reduce the parts of the variable remuneration that are not yet acquired and paid of all (possibly former) Identified Staff (malus) if it has a decreased or negative financial return on investment or if one of the following situations is discovered:

- the Identified Staff does not comply with the applicable standards of expertise and professional integrity;
- the Identified Staff is involved with practices that have led to considerable losses for ABB or is responsible for such practices;
- the Identified Staff is involved with a special mechanism that has as its purpose or effect the promotion of fiscal fraud by third parties;

14.3.2. Measurement of variable remuneration

For Crelan, the variable remuneration is calculated in relation to a maximum amount determined by Salary Class:

- 25% is determined on the basis of the past financial year, of which 12.5% in relation to the resolution of the RAFs of the department concerned,
- 25% is determined on the basis of a multi-year approach, of which 8.33% in relation to risk compliance.

For ABB, the variable remuneration is determined within the limits of the available budget and depending on the local and/or professional market practices, the profits generated by the activity and the achievement of quantitative and qualitative objectives on an individual level and on the level of the bank and the business line, as well as the contribution to the risk management and the observance of the compliance rules.

In the context of an ex ante risk adjustment, a risk analysis will be executed on the level of the enterprise and on the level of the business line or a particular section thereof, without prejudice to the evaluation on an individual level.

Variable bonus pools for supporting functions and integrated control functions are:

- by way of derogation from the above;
- determined independently of the performance of the business line that they validate or control.

In the event the entity performs poorly, the individual variable remunerations determined within the scope of the funding available will automatically be reduced proportionately.

Groep Crelan
Sylvain Dupuislaan 251 - 1070 Brussel
Tel. 02 558 71 11
www.crelan.be
ISSN 1370-2653